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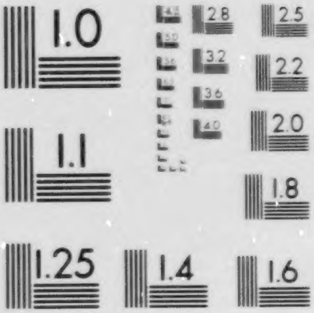
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ABSTRACT

Several years ago, Montgomery County Public Schools (MCPS) began a Management Operations Review and Evaluation (MORE) of the entire school system, excluding school-based instruction. This MORE study is an evaluation of MCPS's current accounting system and certain related financial services functions within the Department of Financial Services. In general, this review indicated the Department, the Office of the Director, and the Division are operated effectively and efficiently given the present level of automated resources. The existing Financial Information System is outmoded and labor intensive. Significant labor savings and management reporting improvements could be realized with a new automated accounting system. The organization of the Department appears logical and effective. There is a lack of budgetary control of expenditures by state category, and a lack of effective control over salary expenditures by account managers. There is need for more effective control over the encumbrance of contracts, the management of outstanding receivables, and the disbursement of cash. Additional results are presented in the following categories: Financial Information System, Accounting Operations, Financial Management and Control, Encumbrance Accounting, Receivables, and Cash Management. (BW)

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ARTHUR YOUNG

ARTHUR YOUNG & COMPANY
1025 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036

August 8, 1983

Mr. Clifford M. Baacke
Director, Division of Administrative
Analysis and Audits
Montgomery County Public Schools
Department of Educational Accountability
850 Hungerford Drive
Rockville, Maryland 20850

Reference: Contract 83-09

Dear Mr. Baacke:

Arthur Young is pleased to present this final report of our review of the Montgomery County Public Schools (MCPS) accounting system. This study is part of the comprehensive, multi-year program, entitled Management Operations Review and Evaluation (MORE), to review and evaluate the entire school system, except school-based instruction.

Our review addressed the efficiency and effectiveness of the operations of the Department of Financial Services and the Division of Accounting. It is based on information gathered from approximately 50 personal interviews, review of existing documentation, observations and survey questionnaires sent to approximately 30 account managers and principals, and on documentation and analysis of the existing accounting system utilizing the technique of structured analysis.

In conducting this study we endeavored to present fairly and impartially the current situation, and to make constructive recommendations for improvement. To assist this process, we conducted an extensive review of our findings and recommendations. The review included a draft report dated May 26, 1983; comments on the draft report from Messrs. Stine, Raucher, Hill, Lewin and Baacke; a detailed response to these comments from Arthur Young; additional comments from Messrs. Stine, Lewin and Baacke; and finally incorporation of these comments into the final report. Our review indicated the Department of Financial Services and the Division of Accounting generally to be operated effectively and efficiently, and the Financial Information System (FIS) to be inadequate for the needs of MCPS.

As a by-product of our review, we were also asked to organize related sections of our analysis into a proposed statement of requirements for a new automated accounting system for MCPS. The statement of requirements was delivered to MCPS under separate cover on May 17, 1983.

Our review was conducted in accordance with the terms of your request for proposals (RFP). It was not an audit in accordance with generally accepted auditing standards for government entities and, accordingly, we make no statement as to the adequacy of MCPS financial statements or financial controls.

Finally, we wish to express our appreciation for the support, cooperation and patience of MCPS in conducting this study, and in particular that of the Director of the Department of Financial Services, the Director of the Division of Accounting, the Director of the Division of Administrative Analysis and Audits, and their respective staffs.

Please address any comments or questions relating to this report to Gregory Kramer or me at (202) 828-7000.

Very truly yours,

ARTHUR YOUNG

By:
Randolph B. Totten
Partner

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Executive Summary

EXECUTIVE SUMMARY

This Executive Summary consists of a discussion of the background of the MORE studies followed by an overview of the major findings and recommendations related to our review of the MCPS accounting system.

BACKGROUND OF THE MORE STUDIES

Several years ago, Montgomery County Public Schools began a comprehensive, multi-year Management Operations Review and Evaluation of the entire school system, excluding school-based instruction. The major objective of this program is to identify management improvements aimed at increasing the productivity and efficiency of MCPS administrative systems and functions. This objective is being met by a series of separate studies, each of which focuses on a major administrative function or system.

This MORE study, conducted by Arthur Young, is an evaluation of MCPS's current accounting system and certain related financial services functions within the Department of Financial Services (the Department) including the management and operations of the Division of Accounting (the Division) and the Office of the Director of Financial Services (Office of the Director). In addition to our review, we were asked to prepare, as a by-product of our analysis, a summary of the accounting system's major requirements resulting from our management analysis. This summary of requirements, submitted under separate cover, is to be expanded by MCPS for future use in acquisition of new systems.

OVERVIEW OF FINDINGS AND RECOMMENDATIONS

In general, our review indicated the Department, the Office of the Director, and the Division are operated effectively and efficiently given the present level of automated resources.

The existing Financial Information System is outmoded and labor intensive. While the Division utilizes this system well, we believe significant labor savings and management reporting improvements should be realized with a new automated accounting system.

The organization of the Department appears logical and effective, although responsibility for receivables should be consolidated within the Division.

Our review also indicated a lack of budgetary control of expenditures by state category, and a lack of effective control over salary expenditures by account managers. Furthermore, there is need for more effective control over the encumbrance of contracts, the management of outstanding receivables, and the disbursement of cash.

The remainder of this Executive Summary presents our more significant findings and resulting recommendations and is organized as follows:

- Financial Information System;
- Accounting Operations;
- Financial Management and Control;
- Encumbrance Accounting;
- Receivables, and
- Cash Management.

Each topic area is presented in the sections which follow.

11

Financial Information System

Our review and analysis of MCPS's current automated Financial Information System indicated the sytem has several significant problems and limitations as follows:

- The system is a batch system developed over 10 years ago, and is outmoded given technology currently available for governmental accounting systems;
- The system is labor intensive both to maintain and to operate (this has significant impact on the Division);
- The system does not effectively and efficiently meet the needs of either the Division or MCPS management;
- The system does not produce information on a timely basis; and
- The system provides insufficient management information for effective decision making.

Therefore, we recommend MCPS define its automated requirements and acquire a new accounting system to replace the existing system. A new accounting system should provide the Division with the tools necessary to increase productivity and efficiency, reduce staff and be more active in managerial and financial accounting issues. MCPS could elect to modify the existing accounting system to meet some of their requirements. While we do not recommend modifying the existing system, the more significant priorities for enhancements to the system appear to be a capability for internal and external reporting, cash to accrual basis conversion, partial payment processing, and on-line data entry in the Division.

Many of our findings and recommendations relate to the deficiencies of the Financial Information System. As stated previously, as a by-product of this management study Arthur Young developed a proposed statement of requirements for a new automated accounting system for MCPS. This statement of requirements was presented to MCPS on May 17, 1983 under separate cover.

Accounting Operations

Our review of the Department and the Division indicated they generally operate efficiently and effectively given the existing Financial Information System. External financial reports and annual financial statements appear to meet applicable standards, however, report generation is inefficient because they are produced manually rather than by the Financial Information System.

The levels and mix of staffing appears adequate given the level of existing automated resources, although the scope of our review did not permit the use of work measurement techniques. The staff appear to be properly educated with experience commensurate with their responsibilities. Assignments are defined clearly with cross-training utilized as necessary. Our review of the accounting systems of other comparable Maryland school systems indicated these accounting operations used significantly smaller staffs; however, all of these school systems had automated accounting systems more advanced than MCPS.

The documentation of the existing accounting system and related operations is not codified. Documentation of the Division is not codified and organized efficiently for use by Division staff. Further, account managers do not have documentation of accounting operations to instruct them on the effective and efficient financial management of their programs.

Other findings related to our review of accounting operations include:

- The chart of accounts is unwieldy, because it is structured to perform cost accounting;
- Reconciliation for insignificant amounts is inefficient;
- The accounting specialist has too many responsibilities; and
- Management involvement in accounting policy formulation is limited.

As a result of these findings we recommend the following actions. First, the Financial Information System should be replaced or a program of modifications of the existing system be initiated. The current system is too labor intensive to be efficient, and does not provide adequate financial information to be effective. Second, effective documentation of the system should be developed for Division personnel and account managers. Third, the chart of accounts should be reduced in size and a cost accounting capability acquired. Fourth, guidelines should be established for reconciliation of immaterial descrepancies. Fifth, some of the responsibilities of the accounting specialist should be delegated to others. Finally, top management should be more involved in the formulation of accounting policy.

Financial Management and Control

Control of MCPS expenditures is currently both diffused and decentralized among 79 primary and secondary account managers, the Department, and the Department of Budget Planning and Development. Our analysis of the financial control process resulted in the following major findings:

- Primary and Secondary account managers do not effectively monitor and control the accounts for which they are responsible, especially those relative to personnel expenditures;

- There is no organizational unit currently exercising overall budgetary control over MCPS expenditures by state category; and

- The role of the Department in the control of expenditures appears to be limited.

Based on our analysis, we believe there is a need to better consolidate control over expenditures within one organizational unit within MCPS. Specifically, we recommend the Department of Budget Planning and Development be assigned the responsibility for controlling all salary and fringe benefit expenditures by state category and concurrently, should also be responsible for the evaluation of overall financial performance against budget. Account managers would be responsible only for those accounts over which they exercise direct control, such as supply or textbook accounts.

In addition, we recommend the Department of Budget Planning and Development be transfered from the Office of Instruction and Program Development to either the Associate Superintendent for Supportive Services or the Superintendent's Office. We believe this organizational change more clearly focuses the role of the Department of Budget Planning and Development and, concurrently gives it greater independence, objectivity and authority within MCPS.

Other recommendations related to our review of the financial management and control function include the following:

- Direct day-to-day control of encumbrance requests should continue to be the responsibility of the Division;

- Account managers should receive additional training and instruction in how to better manage their accounts. These guidelines should be documented in an improved, easily understandable, user oriented financial management manual; and

- MCPS should acquire and utilize an automated cost accounting system for tracking expenditures by school. This would give MCPS valuable management information that is not currently available.

Encumbrance Accounting

The responsibilities of the Division include the encumbrance of funds and the processing of partial payments. At present, the Division does not receive copies of all contracts for encumbering funds. As a result, funds may not be available to make payment for goods and services received. In addition, partial payments are processed by the current accounting system by reducing the amount of the original encumbrance to zero, and then establishing a new encumbrance equal to the amount of the original encumbrance less partial payments.

We recommend the establishment of policies and procedures within MCPS for the encumbrance of all procurement documents (purchase orders, contracts, etc.). These procedures should include the requirement that copies of all contracts be forwarded to the Division.

Further, we recommend the Division evaluate the cost and benefits of modifying the Financial Information System for efficient processing of partial payments. The costs and benefits of this modification should be evaluated in conjunction with the plans of MCPS to acquire a new automated accounting system.

Receivables

There are currently over $1,100,000 in outstanding receivables due to MCPS, consisting primarily of amounts due for after school use of facilities and from the County. This is an excessive amount given that only $175,000 - 200,000 is billed by MCPS on a monthly basis. In addition, the aged receivables listing was in error and was not being used to evaluate receivables and to collect on accounts. We recommend increased emphasis be placed on this function including establishment of a separate Accounts Receivable Section within the Division.

Based on our review, there appears to be an unnecessary division of responsibilities for receivables between the Division and the Office of the Director. Presently the Office of the Director is responsible for cash receipts and maintenance of receivables related to the Employee Benefit Plan while the Division is responsible for all other receivables. For purposes of internal conrol, we recommend the Employee Benefit Plan receivables function be moved to the Division to provide a clear separation of responsibility for cash mangement and receivables and to more clearly focus the receivable function.

Cash Management

The large proportionate size of MCPS disbursements to the County's overall disbursements raise a key issue with regard to the role of agencies with accounts receivable and disbursement management responsibility within the County's cash management function.

Historically, cash mangement has been the exclusive function of the County because of the County's responsibility for revenue collection and investment responsibility for cash accounts. While cash is advanced to MCPS on a daily as needed basis, this emphasis obviates the need for more focus on the management of funds related to the collection of receivables and payment of payables. While income from cash invested because of extended disbursement reverts to the County general fund, it indirectly increases the revenues available to MCPS. Historically, however, there has been little incentive for MCPS or any similar agency to focus on cash management in a County perspective.

We recommend MCPS and the County explore the benefits of a more integrated cash mangement effort. Conceivably, this could take the form of a formal cash management agreement which would include some form of cash incentives for more active agency participation in disbursement and receivable management.

* * * * * * * *

This Executive Summary presented a summary of the results of our review of the MCPS accounting operations. The following chapters present the detailed results of our study.

I. Introduction

I. INTRODUCTION

This report presents the results of the review of the Montgomery County Public Schools (MCPS) accounting system and certain related financial services. The study is part of a comprehensive, multi-year program designated Management Operations Review and Evaluation (MORE) of the entire school system, except school-based instruction, directed by the Board of Education. The MORE program has been described by MCPS as "a systematic program of management improvements aimed at increasing productivity and efficiency throughout MCPS."

This introduction presents the scope and objectives of the study, the approach used by Arthur Young in conducting the study and the organization of this report.

SCOPE AND OBJECTIVES

The primary focus of this study was the Division of Accounting (the Division) and the Office of the Director of the Department of Financial Services (Office of the Director) These two units were reviewed in accordance with the four general objectives of all MORE studies. They are:

- Can any functions or services be eliminated?

- Can any functions or services be provided in a more effective or efficient manner?

- Are there ways to assume additional functions or provide additional services without adding new resources or in an otherwise cost-effective manner?

- Are the administrative and financial controls by which the unit managed adequate? (This objective was given reduced emphasis so as to not duplicate the work of the external auditor.)

In addition, our review addressed the detailed study questions in Attachment A of the Request for Proposals (RFP).

We reviewed the efficiency and effectiveness of the Division and the Office of the Director and the application of generally accepted accounting principles by MCPS management. Our review was not an audit in accordance with generally accepted auditing standards for government entities and, accordingly, we make no statement as to the accuracy of any of the MCPS financial statements or the adequacy of financial controls.

STUDY APPROACH

Our approach to the conduct of this study consisted of five major activities. These were:

- Develop Final Study Design;
- Design and Obtain Approval of Data Collection Instruments;
- Collect data;
- Analyze the Data and Formulate Conclusions and Recommendations; and
- Prepare Final Study Report and Discuss with MCPS.

Five methods of data collection were used to gather the qualitative and quantitative data necessary for this study. They were:

- Personal interviews;
- Review of documentation;

- Review of policies, principles and procedures;

- Observation of operations; and

- Survey questionnaires.

We conducted interviews with approximately fifty individuals within the Division, the Department, other Divisions in the Office of Supportive Services, other Offices in MCPS, other Maryland school systems and Montgomery County government. Our documentation review included manuals, flow charts, diagrams, and records and forms in order to obtain an understanding of the operation of the MCPS accounting system and related financial services functions. The review of policies, practices and procedures was performed to determine whether the MCPS accounting system is operating as indicated by the documentation and interviews. Operations were observed to confirm the procedures and controls described and to obtain an understanding of accounting operations. Finally, a survey questionnaire was distributed to twenty-nine primary and secondary account managers to solicit their perceptions and opinions of the accounting system and its operation.

Data was collected to document the existing accounting system using the technique of structured analysis. This method of studying a system deemphasizes the sequence and points of control of operations in order to emphasize the following:

- What processes are being performed;

- What data each process requires, and the source of such data; and,

- What data each process produces, and the recipients of such data.

We used data flow diagrams to represent graphically the processes of the accounting system, the data each requires, and the data each produces. Based on this understanding of the accounting system, we evaluated the strengths and weaknesses of the system. The final activity was the development of recommendations for the resolution of the issues identified.

ORGANIZATION OF THE REPORT

This report is organized in accordance with the organization of the study questions in Attachment A of the RFP for this management study. Chapter II presents our understanding and documentation of the existing accounting system as a basis for conducting this management study. Each of the succeeding chapters of this report present our findings and recommendations in each of the study areas identified by MCPS. These study areas by chapter are:

II. Existing Environment
III. Accounting Policies, Principles, and Procedures
IV. Functions and Responsibilities
V. Organization, Management and Control
VI. Staffing, Budget and Cost
VII. User Perceptions
VIII. Financial Information System and Data Collection, Retention and Data Processing Support
IX. Asset Management
X. Additional Accounting Issues

A generalized statement of requirements for a new, automated accounting system was submitted to MCPS under separate cover as a by-product of our analysis. This statement of requirements is based on the information gathered during our analysis of the accounting system, and as such, must be viewed in that context and not as a final statement of the accounting needs of MCPS.

* * * * *

This chapter has presented the scope of the study, the organization of this report, and our study approach. The next chapter, Existing Environment, presents our understanding and documentation of the existing accounting operations of MCPS as a basis for conducting this management study.

II. Existing Environment

II. EXISTING ENVIRONMENT

This chapter presents our understanding of the Department, the Division, and the Office of the Director as a basis for conducting the management study. This chapter describes the relevant organization, staffing and responsibilities of the Department, the Division and the Office of the Director and includes an overview of the automated systems which support the Division. The chapter, which is designed to be purely descriptive and establish a basis for further discussion, is organized into two major sections:

- Organization, Staffing and Responsibilities; and

- Financial Information System and Procedures.

ORGANIZATION, STAFFING AND RESPONSIBILITIES

The Department consists of four organizational units: the Office of the Director, the Division of Accounting, the Division of Insurance and Retirement and the Division of Payroll. The Department is generally responsible for providing financial reporting and control for the business affairs of MCPS through the activities of its three Divisions. However, the primary focus of this study was the Division of Accounting and the Office of the Director.

The Department's Director reports to the Associate Superintendent for Supportive Services. An organization chart of the Department is included as Exhibit II-1.

OFFICE OF THE DIRECTOR

Staffing in the Office of the Director consists of four employees. The Director is responsible for supervising the operations of the three Divisions and providing overall

MCPS
DEPARTMENT OF FINANCIAL SERVICES

ORGANIZATION CHART

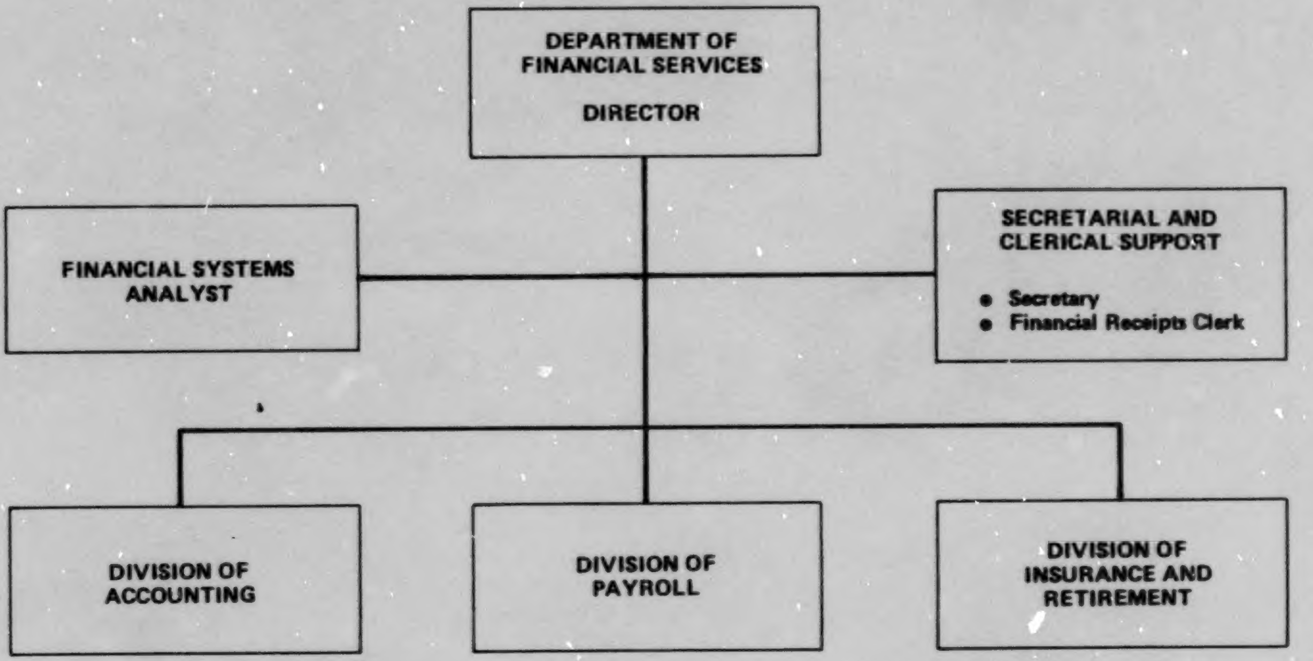

DEPARTMENT OF FINANCIAL SERVICES
DIRECTOR
FINANCIAL SYSTEMS ANALYST
SECRETARIAL AND CLERICAL SUPPORT
• Secretary
• Financial Receipts Clerk
DIVISION OF ACCOUNTING
DIVISION OF PAYROLL
DIVISION OF INSURANCE AND RETIREMENT

EXHIBIT II-1

direction in the development and implementation of MCPS financial policies. He is assisted by a secretary who is responsible for procesing summer school and adult education registrations in addition to secretarial duties. A financial receipts clerk is assigned to the Director's office for the purpose of receiving, processing and depositing MCPS cash receipts.

Last year, a financial systems analyst was added to the Director's staff to coordinate development and implementation of all automated financial and related application systems which are to be acquired or developed over the next several years.

DIVISION OF ACCOUNTING

The Division is staffed by 31 full-time employees organized into five sections:

- Division Director's Office (4 employees);
- General Accounting and Financial Reporting (3 employees);
- Cafeteria Accounting (5 employees);
- Accounts Payable (15 employees);
- Input/Output Control (4 employees).

The fiscal 1984 budget as adopted by the Board of Education includes a reduction of one employee in the Accounts Payable Section. Exhibit II-2 on the following page shows the Division's current organizational structure.

The Division Director is responsible for the overall direction and control of MCPS accounting operations. He is

MCPS
DIVISION OF ACCOUNTING

ORGANIZATION CHART

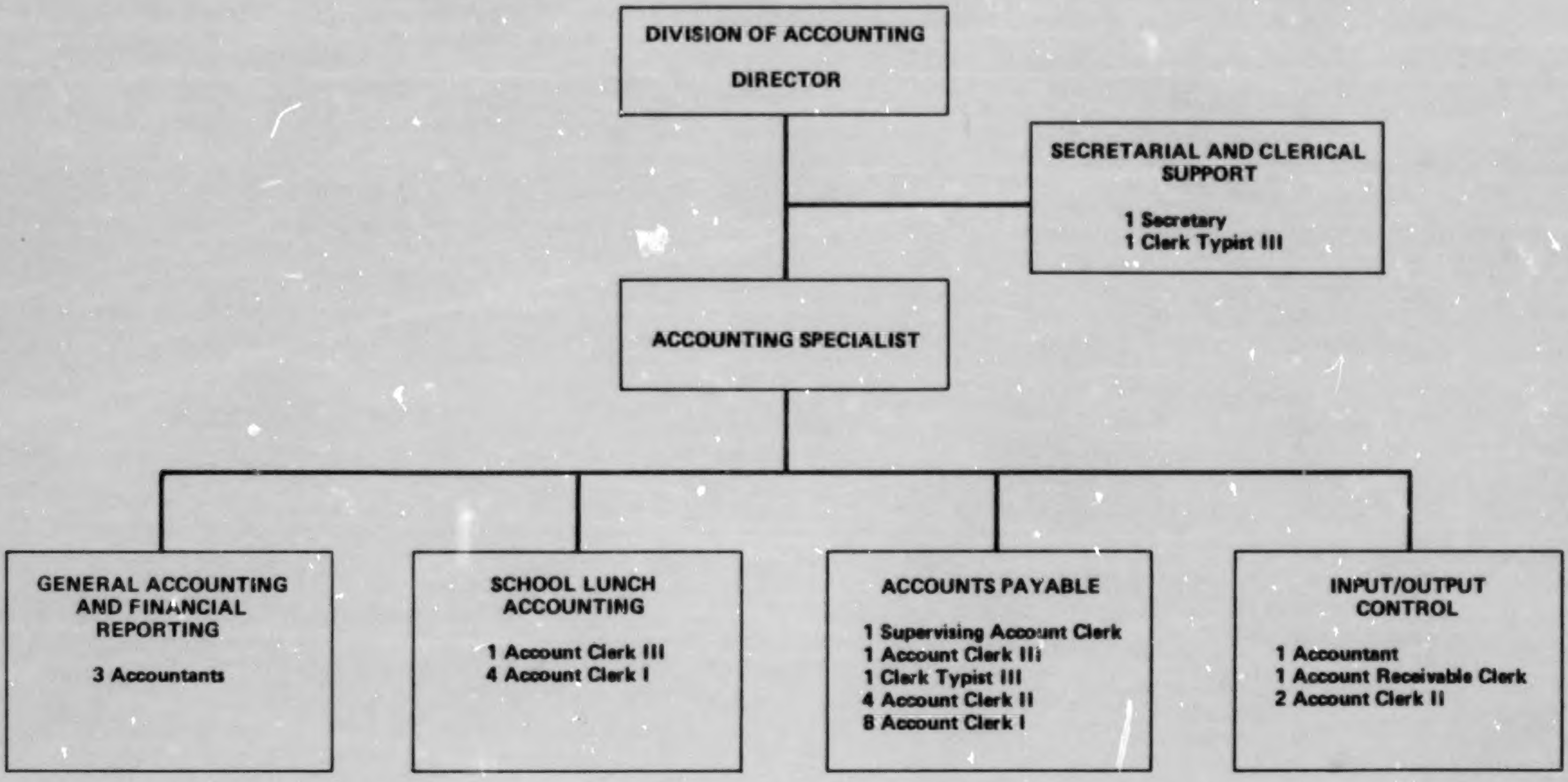

DIVISION OF ACCOUNTING
DIRECTOR
SECRETARIAL AND CLERICAL SUPPORT
1 Secretary
1 Clerk Typist III
ACCOUNTING SPECIALIST
GENERAL ACCOUNTING AND FINANCIAL REPORTING
3 Accountants
SCHOOL LUNCH ACCOUNTING
1 Account Clerk III
4 Account Clerk I
ACCOUNTS PAYABLE
1 Supervising Account Clerk
1 Account Clerk III
1 Clerk Typist III
4 Account Clerk II
8 Account Clerk I
INPUT/OUTPUT CONTROL
1 Accountant
1 Account Receivable Clerk
2 Account Clerk II

EXHIBIT II-2

supported by an administrative secretary and an office assistant whose major responsibility is to type various financial and annual reports.

An accounting specialist reports directly to the Division Director and is responsible for managing the day-to-day operations of the Division including the direct supervision of the accountants in the General Accounting and Financial Reporting Section and the section supervisors. The accounting specialist also substitutes for all of the section supervisors reporting to her.

The General Accounting and Financial Reporting Section consists of three professional accountants who are responsible for various aspects of the financial reporting process. Specific responsibilities of this section include:

- Maintenance of general fixed asset accounts;
- Monitoring of lease purchases and contracts;
- Preparation of financial reports for all federal, state and special grants and sponsored programs;
- Preparation of financial reports;
- Reconciliation with systems that interface with the financial systems;
- Physical inventory planning and observation;
- Compilation of lease purchase agreements and installation contracts;
- Maintenance of capital project accounting records;
- Forecasting of cash requirements;

- Fringe Benefit Accounting and Employee Benefit Plan Trust Accounting;

- Fixed Asset Accounting; and

- Processing budget transfers and journal vouchers.

The Cafeteria Accounting Section consists of one supervising account clerk and four account clerks. They are responsible for processing cafeteria invoices in accordance with bid lists, reconciling individual cafeteria bank statements and controlling cafeteria funds. The supervising account clerk is responsible for preparing monthly accruals for the cafeteria profit and loss statements which are generated for each individual cafeteria on a monthly basis by the automated cafeteria accounting system. The Cafeteria Accounting Section has the additional responsibility of receiving, opening, stamping, sorting and distributing all the incoming mail for the Division. Detailed documentation of cafeteria invoice processing and cafeteria income and mangement reporting is presented in Appendix II-A at the end of this chapter.

The Accounts Payable Section consists of one supervising office assistant and 13 account clerks. They are responsible for the following activities and tasks:

- Encumbering purchase orders;

- Processing vendor invoices including matching receiving reports and invoices;

- Processing utility payments and other off-purchase order payments;

- Processing local and out-of-state travel requests and payments;

- Processing transportation and tuition payments for handicapped children;

- Responding to vendor inquiries;

- Maintenance of payment records and supporting documents;

- Processing of field trip tickets; and

- Processing reimbursements to schools for items purchased through independent activity funds.

The performance of the above tasks includes the arithmetic verification of dollar amount and the review of authorizing signatures, and account classifications for validity. The work performed within the Accounts Payable Section is distributed among the clerks such that each clerk has responsibility for approximately the same volume of transactions. Detailed documentation of the purchase order encumbrance process and the processing of invoices may be found in Appendix II-A at the end of this chapter.

The Input/Output Control Section consists of one accountant who coordinates the section, an accounts receivable clerk and two account clerks. The Input/Output Section has two major responsibilities, the first of which is the maintenance of the Division's financial information systems including:

- Maintenance of batch control sheets;

- Maintenance of computer run to run controls;

- Receipt and distribution of computer generated output reports and forms;

- Control of daily input and output of all accounting transactions to the Division's Financial Information System; and

- Maintenance of control totals between the Financial Information System and various outside systems which interface with Financial Information System.

The second major responsibility of the Input/Output Control Section is accounts receivable. This activity is performed by an accounts receivable clerk responsible for the billing and collection of all MCPS receivables. MCPS invoices are generated and receivables maintained by an automated accounts receivable system. The accounts receivable clerk is also responsible for distributing all payroll checks. Detailed documentation of the input/output control processing and accounts receivable processing is presented in Appendix II-A at the end of this chapter.

FINANCIAL INFORMATION SYSTEM AND PROCEDURES

The Division's Financial Information System consists of three automated financial systems:

- Appropriation/general ledger system;

- Accounts receivable system; and

- Cafeteria accounting system.

We used the technique of structured analysis for studying the MCPS Financial Information System. Structured analysis is a method of studying a system which deemphasizes the sequence and points of control of operations in order to emphasize the following:

- Process being performed;

- Data required by each process and the source of such data; and

- Data produced by each process, and the recipient of such data.

We used data flow diagrams to graphically represent the processes of the system, the data each requires, and the data each produces. The data flow diagrams are presented at several levels. A process shown on a diagram at one level is shown as several subsidiary processes on another data flow diagram representing a lower level. Appendix II-A pages 1 through 13 at end of this chapter, present our understanding of the current MCPS Financial Information System through the use of data flow diagrams. The Division's Financial Information System and associated procedures are described below through use of these data flow diagrams.

APPROPRIATION/GENERAL LEDGER SYSTEM

The Appropriation/General Ledger System is the largest application system utilized currently by the Division. It is a batch system developed approximately 10 years ago by a combination of in-house personnel and outside contractors.

The Appropriation/General Ledger System provides budgetary reporting, accounts payable processing, and general ledger accounting. Encumbrance and expenditure transactions are processed and posted against various budgetary accounts utilizing the following general process. Purchase orders are received in the Accounts Payable Section where they are audited, assigned vendor numbers and batched. From the Accounts Payable Section, they are forwarded via the Input/Output Control Section to Data Processing where they are keypunched. They are entered into the system that night. Each batch is edited for batch total balances and processing of duplicates. Once a batch has passed this edit program its constituent transactions are then edited for such items as valid vendor numbers, transaction codes, account codes, correct field sizes and character consistency and sufficient available unencumbered funds. The data necessary for the system to perform these edits is contained on three disk files. These three files are the code and descriptor file, the chart of accounts file and the account summary balance file. These files are accessed by the edit programs during the edit process. Those transactions which are in error are written to an edit error report which after printing is forwarded to the appropriate user for follow-up and correction. Those transactions which successfully pass the edit routines within the system are then posted to the appropriate budgetary accounts which are carried on the account summary balance file. Encumbrance transactions result in the production of a punched card called a "pending pay" card which is returned to the Accounts Payable Section. When a vendor invoice is received, it is matched with a receiving report and verfified. After this verification, the corresponding pending pay card is retrieved and the amount of the invoice is recorded on the card and the cards are forwarded to Data Processing where they are entered into the system. The pending pay transactions are then edited and posted to the appropriate budgetary account. The system then sorts out all payment transactions for that day and a check writing program produces vendor checks and remittance advices along with a check register. These are forwarded to the Accounts Payable Section where they are stuffed and mailed.

Various other output reports in addition to the edit reports are produced during the daily cycle. At month-end, the Operating Budget and Statement of Transaction reports are produced along with the General Ledger Detail Report which is produced from the general ledger report file. The month-to-date totals on the account summary balance file are also zeroed out at month end to prepare for the next months processing. Detailed documentation of the Appropriation/General Ledger System is included in Appendix II-A.

ACCOUNTS RECEIVABLE SYSTEM

The Accounts Receivable System is a batch system which was developed in 1977 by an outside contractor. It interfaces with the Apropriation/General Ledger System to keep a record of all receivable transactions and automatically handles the invoicing/billing/receipt procedures of MCPS.

Four basic types of transactions are entered into the Accounts Receivable System including:

- Journal voucher (charge) entries
- Employee benefit plan transactions which are retrieved from the code and descriptor file of the appropriation/general ledger system;
- Warehouse withdrawals, purchase order payments, payroll payments extracted from the appropriation/general ledger system; and
- Cash receipts.

The first three types of transactions flow through the system, generate invoices and are stored on the accounts receivable master file by customer number and invoice number. Cash receipts enter the Accounts Receivable System through the Appropriation/General Ledger System, and when the sum of cash receipts posted and the total invoice document is zero, that invoice is purged from the master file to a history file. Accounts receivable transactions are extracted from the Appropriation/General Ledger System daily and added to the accounts receivable master file. This system also produces an outstanding invoice listing, aged accounts receivable report and customer history reports. The system also has a file maintenance capability which allows the accounts receivable clerk to delete records from the master file, add records to the master file or change the contents of fields on individual customer records on the master file. Detailed documentation of the Accounts Receivable System in the form of data flow diagrams is presented in Exhibit II-A.

CAFETERIA ACCOUNTING SYSTEM

The Cafeteria Accounting System is also a batch system developed in 1973 by in-house data processing personnel. This system supports the Cafeteria Accounting Section. At the end of each day every cafeteria manager completes a Daily Input Form (op-scan) which records school lunch receipts and the number of meals served by category. These forms are forwarded to the Cafeteria Accounting Section where they are batched and forwarded to Data Processing for input to the system. As these forms are entered into the system, they are edited and a Report of Participation and Receipts is generated along with an edit report which details identified errors. The code and descriptor file is accessed by the edit program during the edit process. This edit report is then returned to the Cafeteria Accounting Section for subsequent corrections and reprocessing.

On a monthly basis, the Appropriation/General Ledger System produces a cafeteria expense extraction tape which details all expenses related to each individual cafeteria.

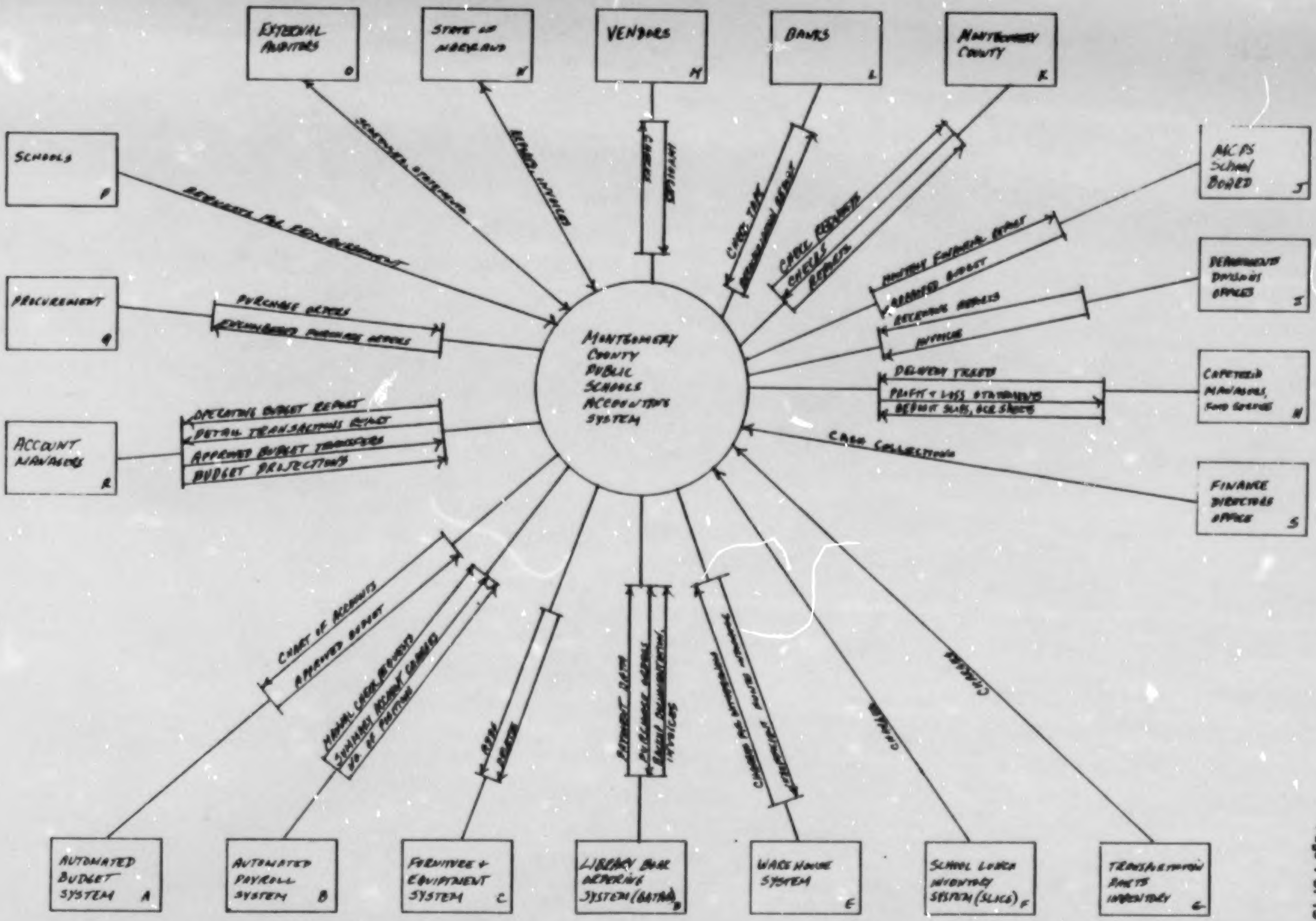
This tape is input to the Cafeteria Accounting System which prorates those expenses based on predefined parameters. The system then produces two reports: a monthly profit and loss statement for each cafeteria and a cafeteria expense report for each cafeteria. These two reports are forwarded to the Cafeteria Accounting Section for subsequent distribution to MCPS management, cafeteria managers and the Division of Food Service.

* * * * *

This chapter presented a description of the organizations and systems that were the basis of our analysis and requirements statement. Beginning with the next chapter, Accounting Policies, Principles, and Procedures, we discuss the major findings and recommendations from our review.

APPENDIX II-A

CONTEXT DIAGRAM


EXTERNAL AUDITORS O
STATE OF MARYLAND N
VENDORS M
BANKS L
MONTGOMERY COUNTY K
MCPS School BOARD J
DEPARTMENTS DIVISIONS OFFICES I
CAFETERIA MANAGERS, FOOD SERVICE H
FINANCE DIRECTORS OFFICE S
SCHOOLS P
PROCUREMENT Q
ACCOUNT MANAGERS R
MONTGOMERY COUNTY PUBLIC SCHOOLS ACCOUNTING SYSTEM
SCHEDULES, STATEMENTS
REPORTS, INVOICES
CHECKS
INVOICES
REQUESTS FOR REIMBURSEMENT
PURCHASE ORDERS
ENCUMBERED PURCHASE ORDERS
OPERATING BUDGET REPORT
DETAIL TRANSACTIONS REPORT
APPROVED BUDGET TRANSFERS
BUDGET PROJECTIONS
CHECK TAPE
RECONCILIATION REPORT
CHECK REQUESTS
CHECKS
REPORTS
MONTHLY FINANCIAL REPORT
APPROVED BUDGET
RECEIVING REPORTS
INVOICES
DELIVERY TICKETS
PROFIT + LOSS STATEMENTS
DEPOSIT SLIPS, ACE SHEETS
CASH COLLECTIONS
CHART OF ACCOUNTS
APPROVED BUDGET
MANUAL CHECK REQUESTS
SUMMARY ACCOUNT CHANGES
NO. OF POSTINGS
ADDS
DELETES
PAYMENT DATA
PURCHASE ORDERS
RECEIVING DOCUMENTATION, INVOICES
CHARGES
CHARGES
AUTOMATED BUDGET SYSTEM A
AUTOMATED PAYROLL SYSTEM B
FURNITURE + EQUIPMENT SYSTEM C
LIBRARY BOOK ORDERING SYSTEM (BATAB) D
WAREHOUSE SYSTEM E
SCHOOL LUNCH INVENTORY SYSTEM (SLICS) F
TRANSPORTATION ASSETS INVENTORY G

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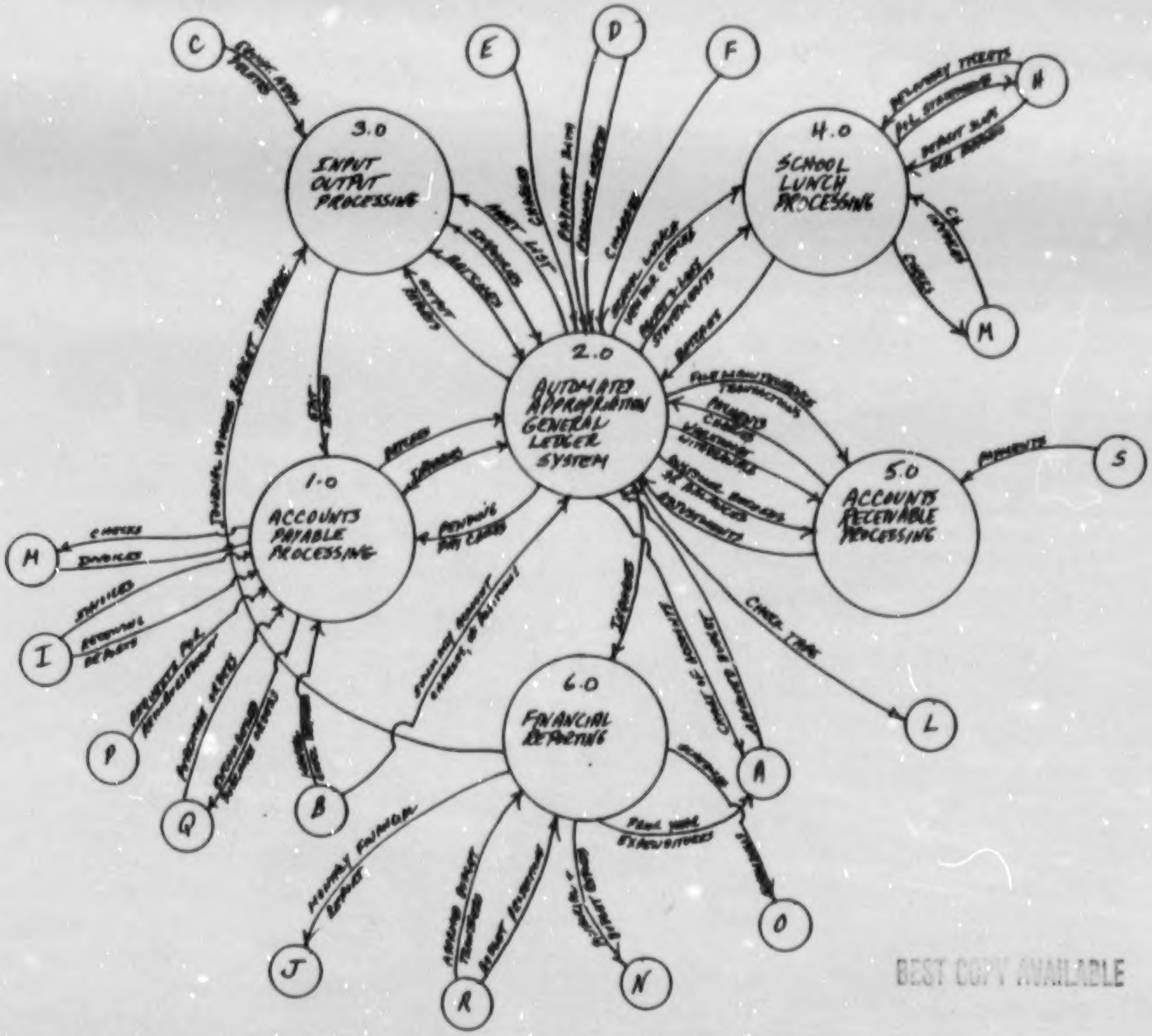
FINANCIAL ACCOUNTING SYSTEM
OVERVIEW



C
E
D
F
H
M
S
L
A
O
N
R
J
Q
B
P
I
3.0 INPUT OUTPUT PROCESSING
4.0 SCHOOL LUNCH PROCESSING
2.0 AUTOMATED APPROPRIATION GENERAL LEDGER SYSTEM
1.0 ACCOUNTS PAYABLE PROCESSING
5.0 ACCOUNTS RECEIVABLE PROCESSING
6.0 FINANCIAL REPORTING
PRINT LIST
CHANGES
OUTPUT REPORTS
DELINQUENCY TICKETS
DEPOSIT SLIPS
PAYMENTS
TRANSACTIONS
ADJUSTMENTS
CHECK TAPE
CHECKS
INVOICES
PENDING PAY CARDS
MONTHLY FINANCIAL REPORT
PRIOR YEAR EXPENDITURES

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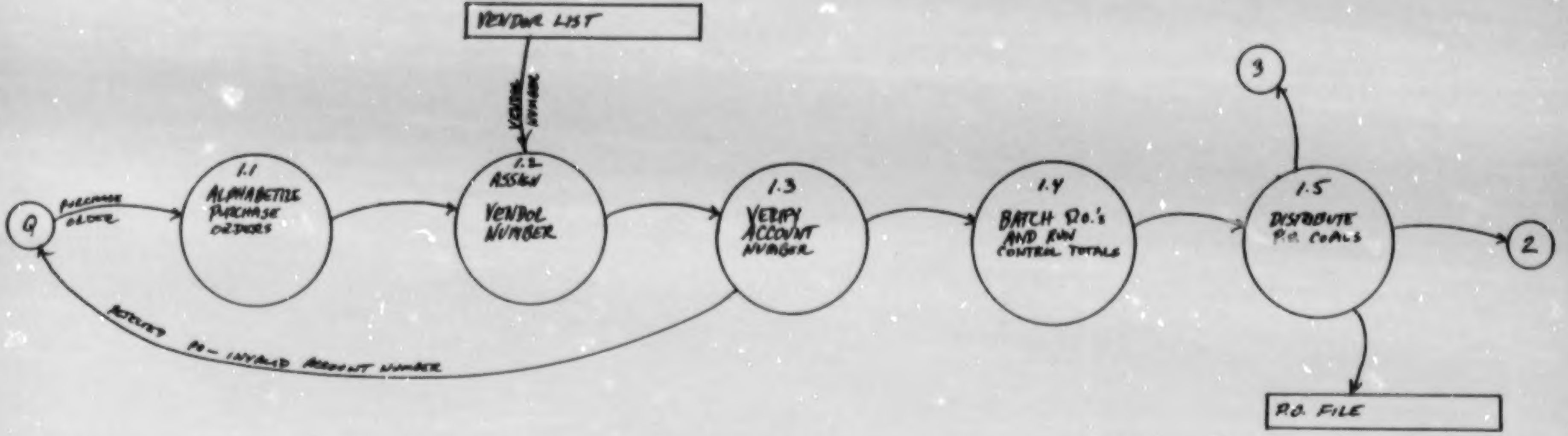
1.0 ACCOUNTS PAYABLE
ENCUMBER PURCHASE ORDERS

PAGE 1 OF 4


VENDOR LIST
VENDOR NUMBER
Q
PURCHASE ORDER
1.1 ALPHABETIZE PURCHASE ORDERS
1.2 ASSIGN VENDOR NUMBER
1.3 VERIFY ACCOUNT NUMBER
1.4 BATCH P.O.'s AND RUN CONTROL TOTALS
1.5 DISTRIBUTE P.O. COPIES
3
2
P.O. FILE
REJECTED PO - INVALID ACCOUNT NUMBER

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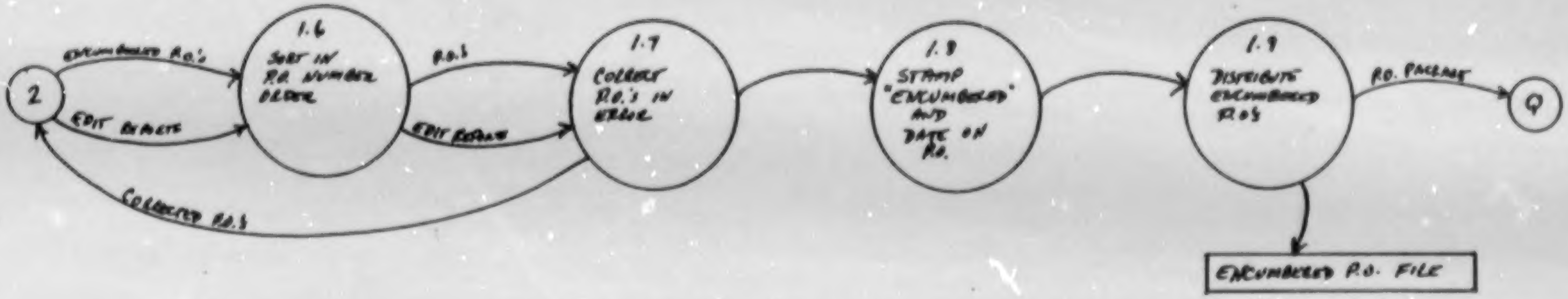
1.0 ACCOUNTS PAYABLE
ENCUMBER PURCHASE ORDERS

PAGE 2 OF 4


2
ENCUMBERED P.O.'s
EDIT REJECTS
1.6
SORT IN P.O. NUMBER ORDER
P.O.'s
EDIT REPORT
1.7
CORRECT P.O.'s IN ERROR
CORRECTED P.O.'s
1.8
STAMP "ENCUMBERED" AND DATE ON P.O.
1.9
DISTRIBUTE ENCUMBERED P.O.'s
P.O. PACKAGE
Q
ENCUMBERED P.O. FILE

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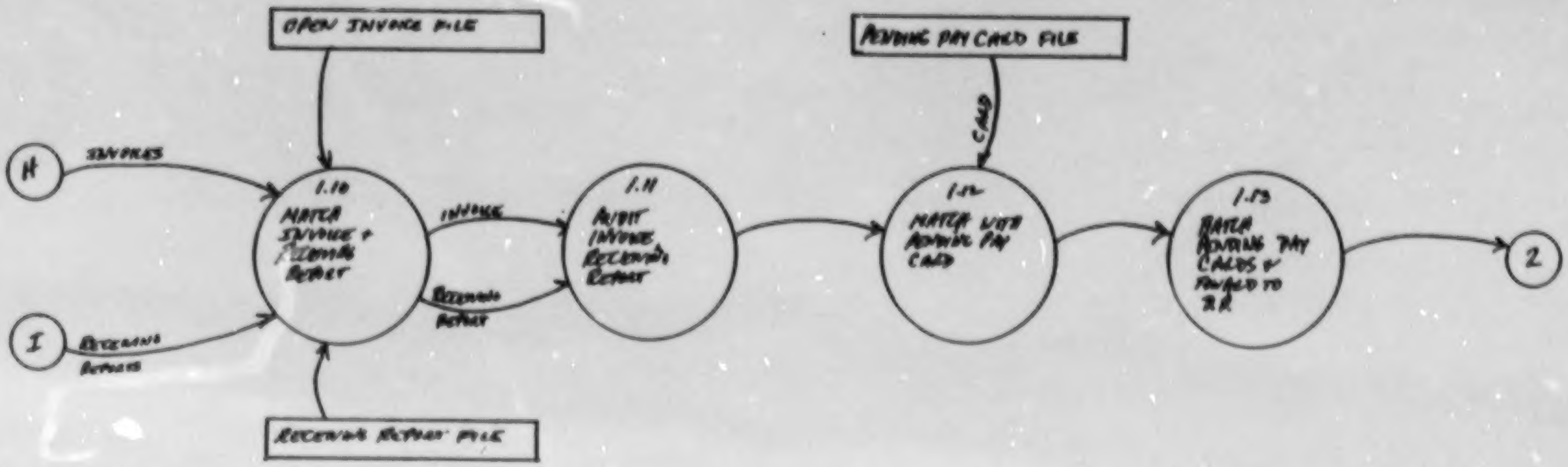
1.0 ACCOUNTS PAYABLE
PROCESS INVOICES

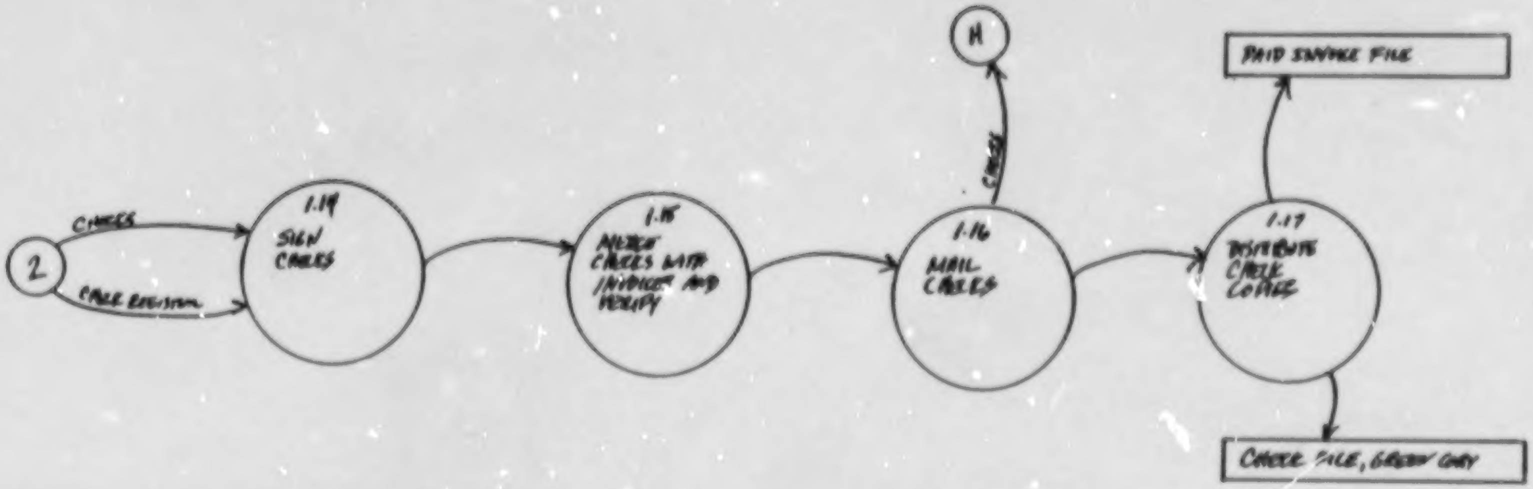
PAGE 3 of 4


OPEN INVOICE FILE
PENDING PAY CARD FILE
CARD
H
INVOICES
I
RECEIVING REPORTS
1.10
MATCH INVOICE + RECEIVING REPORT
INVOICE
RECEIVING REPORT
1.11
AUDIT INVOICE RECEIVING REPORT
1.12
MATCH WITH PENDING PAY CARD
1.13
BATCH PENDING PAY CARDS & FORWARD TO DP
2
RECEIVING REPORT FILE

BEST COPY AVAILABLE

1.0 ACCOUNTS PAYABLE
PROCESS INVOICES

Page 4 of 4


2
CHECKS
CHECK REGISTER
1.14
SIGN CHECKS
1.15
MATCH CHECKS WITH INVOICES AND VERIFY
1.16
MAIL CHECKS
CHECKS
H
1.17
DISTRIBUTE CHECK COPIES
PAID INVOICE FILE
CHECK FILE, GREEN COPY

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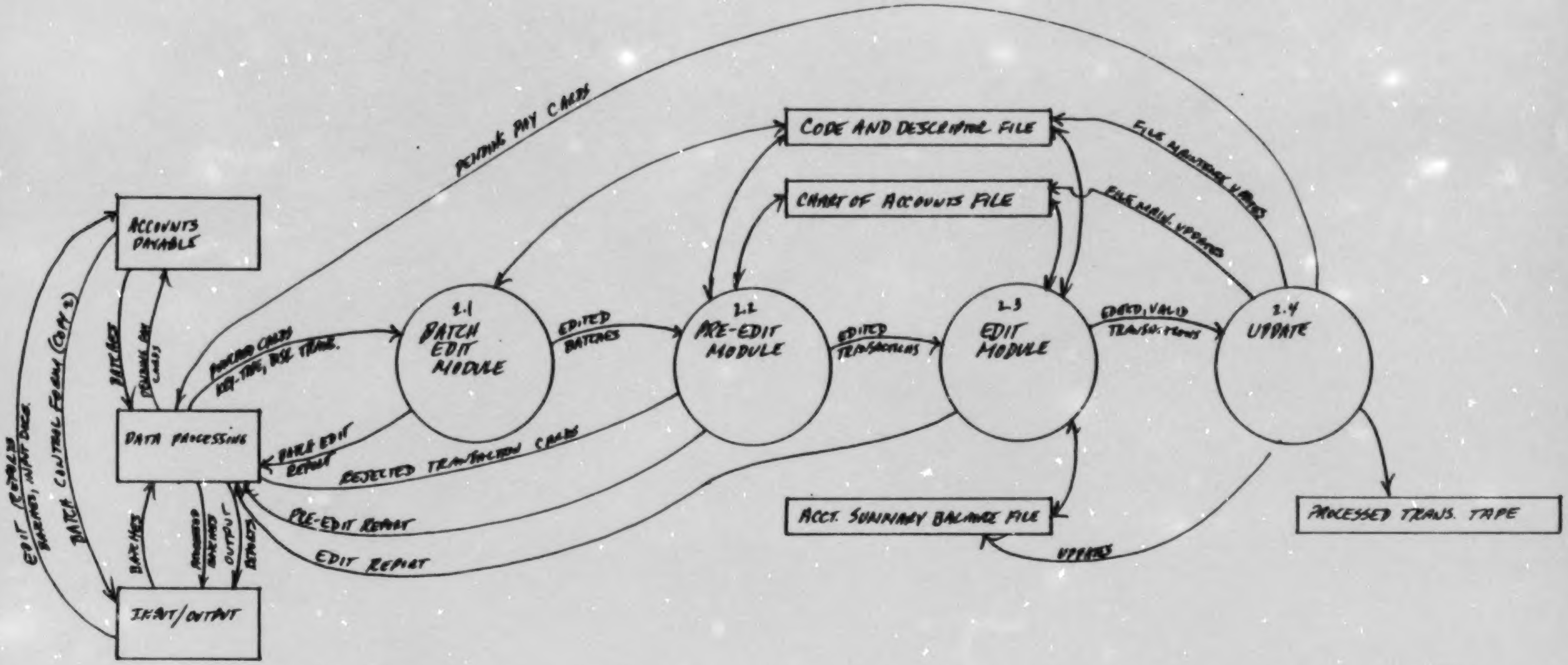
2.0 APPROPRIATION, GENERAL LEDGER SYSTEM PAGE 1 OF 3


PENDING PAY CARDS
CODE AND DESCRIPTOR FILE
CHART OF ACCOUNTS FILE
FILE MAINTENANCE UPDATES
FILE MAIN. UPDATES
ACCOUNTS PAYABLE
2.1 BATCH EDIT MODULE
EDITED BATCHES
2.2 PRE-EDIT MODULE
EDITED TRANSACTIONS
2.3 EDIT MODULE
EDITED, VALID TRANSACTIONS
2.4 UPDATE
BATCHES
PENDING PAY CARDS
PUNCHED CARDS KEY-TAPE, DISK TRANS.
DATA PROCESSING
BATCH EDIT REPORT
REJECTED TRANSACTION CARDS
PRE-EDIT REPORT
EDIT REPORT
ACCT. SUMMARY BALANCE FILE
UPDATES
PROCESSED TRANS. TAPE
EDIT REPORTS
BATCHES, INPUT DOCS.
BATCH CONTROL FORM (COPY 2)
BATCHES
PROCESSED BATCHES
OUTPUT
REPORTS
INPUT/OUTPUT

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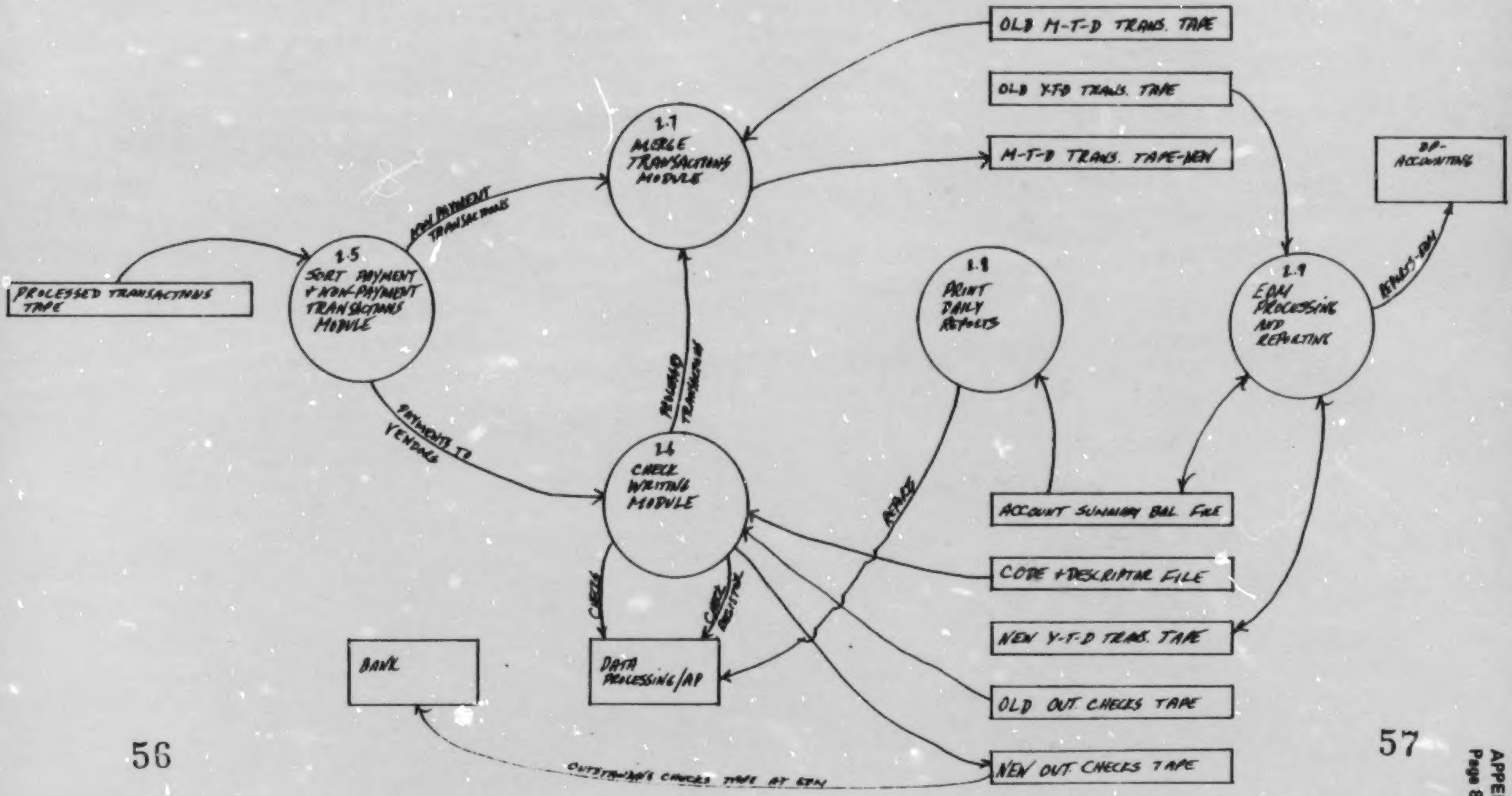
2.0 APPROPRIATION, GENERAL LEDGER SYSTEM (CONT'D)

PAGE 2 of 3


OLD M-T-D TRANS. TAPE
OLD Y-T-D TRANS. TAPE
2.7
MERGE TRANSACTIONS MODULE
M-T-D TRANS. TAPE-NEW
DP-ACCOUNTING
NON PAYMENT TRANSACTIONS
2.5
SORT PAYMENT + NON-PAYMENT TRANSACTIONS MODULE
PROCESSED TRANSACTIONS TAPE
2.8
PRINT DAILY REPORTS
2.9
EAM PROCESSING AND REPORTING
REPORTS-EAM
PAYMENTS TO VENDORS
PROCESSED TRANSACTION
2.6
CHECK WRITING MODULE
REPORTS
ACCOUNT SUMMARY BAL. FILE
CODE + DESCRIPTOR FILE
CHECKS
CHECK REGISTER
NEW Y-T-D TRANS. TAPE
BANK
DATA PROCESSING/AP
OLD OUT. CHECKS TAPE
NEW OUT. CHECKS TAPE
OUTSTANDING CHECKS TAPE AT EAM

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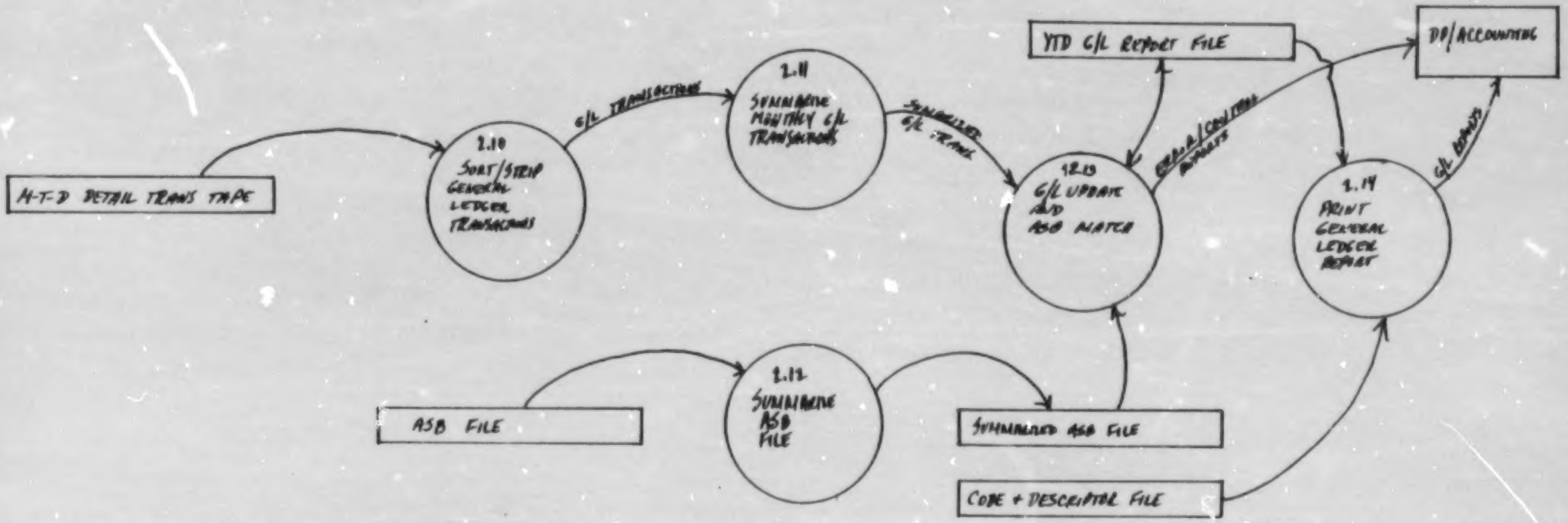
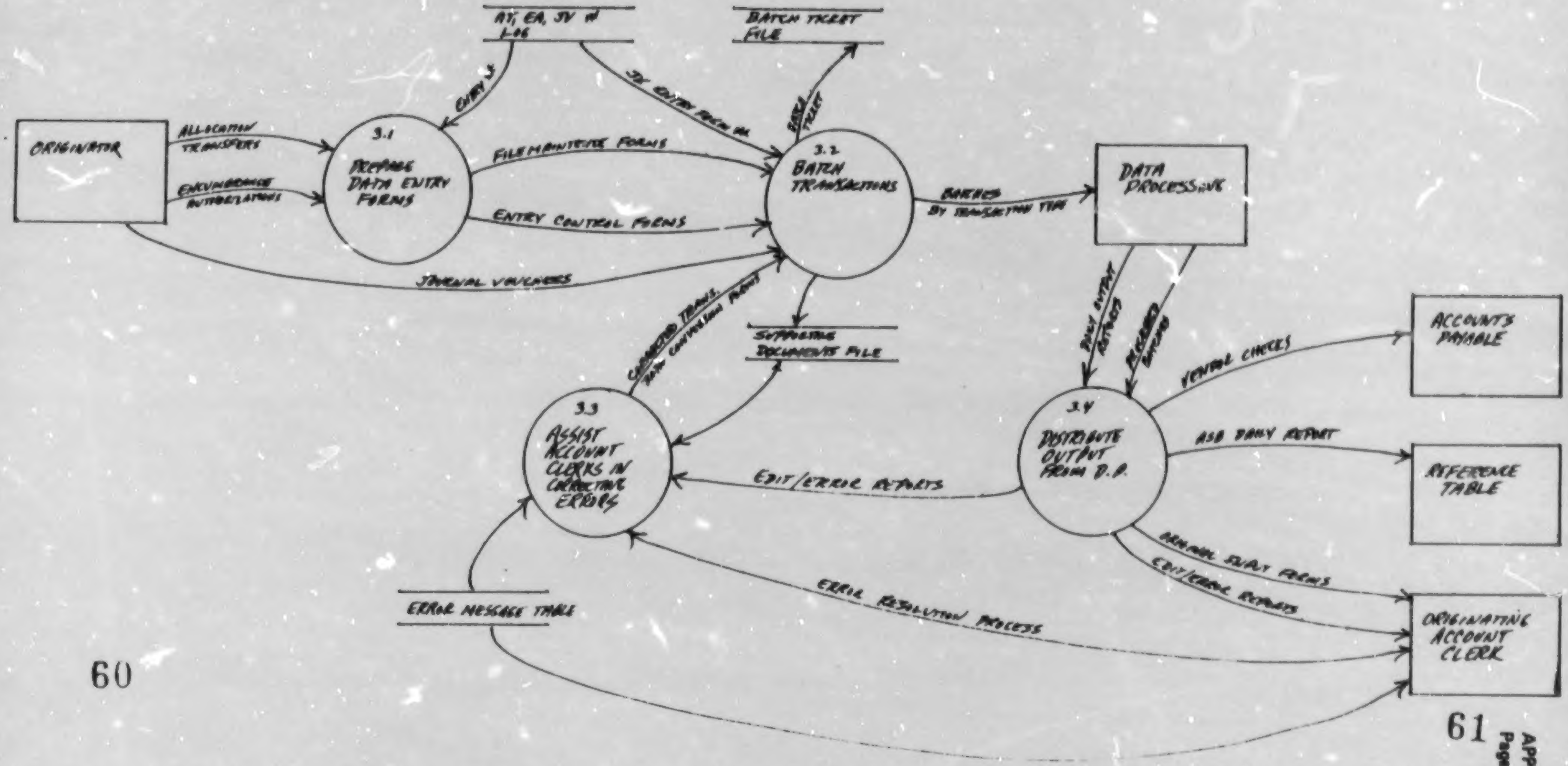
2.0 APPROPRIATION, GENERAL LEDGER SYSTEM (CONT'D)

PAGE 3 of 3


M-T-D DETAIL TRANS TAPE
2.10
SORT/STRIP GENERAL LEDGER TRANSACTIONS
G/L TRANSACTIONS
2.11
SUMMARIZE MONTHLY G/L TRANSACTIONS
SUMMARIZED G/L TRANS
2.13
G/L UPDATE AND ASB MATCH
YTD G/L REPORT FILE
ERROR/CONTROL REPORTS
DP/ACCOUNTING
2.14
PRINT GENERAL LEDGER REPORT
G/L REPORTS
ASB FILE
2.12
SUMMARIZE ASB FILE
SUMMARIZED ASB FILE
CODE + DESCRIPTOR FILE

3.0 INPUT/OUTPUT SECTION
CONTROL CLERK


AT, EA, JV IN LOG
BATCH TICKET FILE
ENTRY JS
JV ENTRY FORM IN
BATCH TICKET
ORIGINATOR
ALLOCATION TRANSFERS
ENCUMBRANCE AUTHORIZATIONS
3.1
PREPARE DATA ENTRY FORMS
FILE MAINTENANCE FORMS
ENTRY CONTROL FORMS
JOURNAL VOUCHERS
3.2
BATCH TRANSACTIONS
BATCHES BY TRANSACTION TYPE
DATA PROCESSING
DAILY OUTPUT REPORTS
PROCESSED BATCHES
CORRECTED TRANS.
DATA CONVERSION FORMS
SUPPORTING DOCUMENTS FILE
3.3
ASSIST ACCOUNT CLERKS IN CORRECTING ERRORS
EDIT/ERROR REPORTS
3.4
DISTRIBUTE OUTPUT FROM D.P.
VENDOR CHECKS
ACCOUNTS PAYABLE
ASB DAILY REPORT
REFERENCE TABLE
ORIGINAL INPUT FORMS
EDIT/ERROR REPORTS
ERROR RESOLUTION PROCESS
ERROR MESSAGE TABLE
ORIGINATING ACCOUNT CLERK

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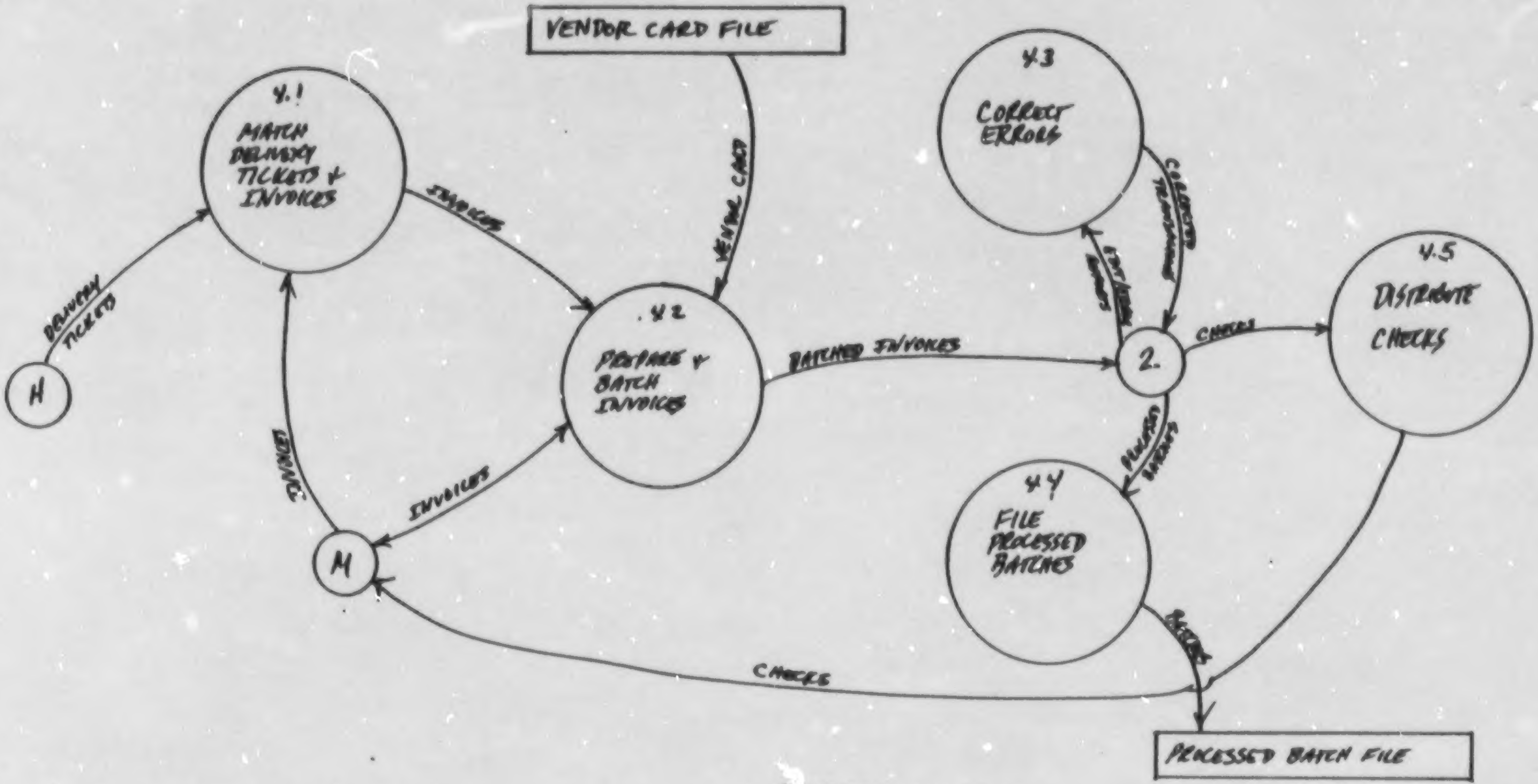
4.0 FOOD SERVICE INVOICE PROCESSING

PAGE 1 of 2


VENDOR CARD FILE
4.1
MATCH DELIVERY TICKETS & INVOICES
H
DELIVERY TICKETS
INVOICES
VENDOR CARD
4.2
PREPARE & BATCH INVOICES
INVOICE
INVOICES
M
BATCHED INVOICES
4.3
CORRECT ERRORS
EDIT/AUDIT ERRORS
CORRECTED TRANSACTIONS
2.
CHECKS
4.5
DISTRIBUTE CHECKS
PROCESSED BATCHES
4.4
FILE PROCESSED BATCHES
BATCHES
CHECKS
PROCESSED BATCH FILE

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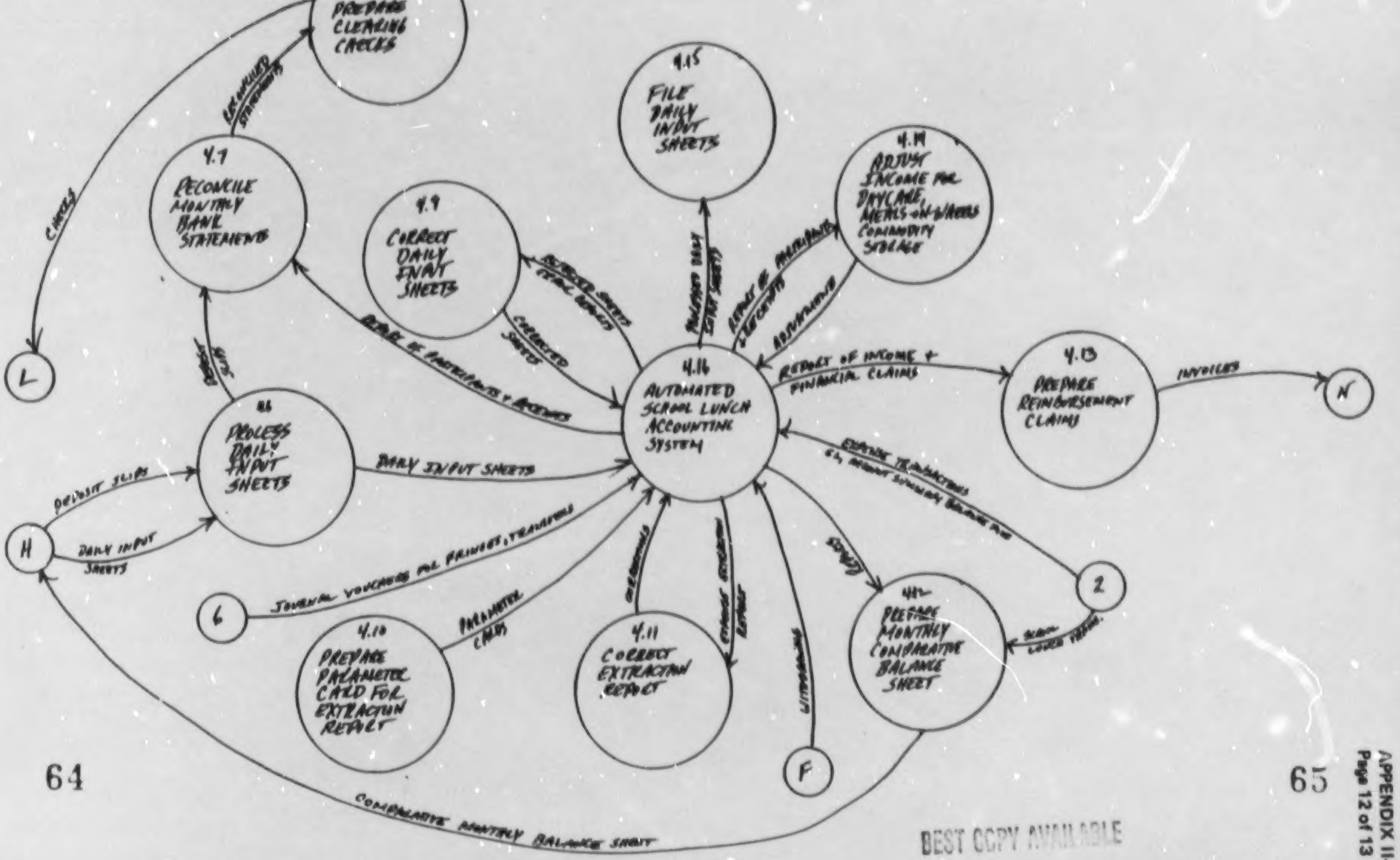
4.0 FOOD SERVICE INCOME AND REPORTING

PAGE 2 OF 2


4.8
PREPARE CLEARING CHECKS
RECONCILED STATEMENTS
CHECKS
4.7
RECONCILE MONTHLY BANK STATEMENTS
4.9
CORRECT DAILY INPUT SHEETS
4.15
FILE DAILY INPUT SHEETS
4.14
ADJUST INCOME FOR DAYCARE, MEALS-ON-WHEELS COMMODITY STORAGE
CORRECTED SHEETS
REPORT OF PARTICIPANTS + RECEIPTS
PROCESSED DAILY INPUT SHEETS
REPORT OF PARTICIPANTS + RECEIPTS
ADJUSTMENTS
L
DEPOSIT SLIPS
4.6
PROCESS DAILY INPUT SHEETS
4.16
AUTOMATED SCHOOL LUNCH ACCOUNTING SYSTEM
REPORT OF INCOME + FINANCIAL CLAIMS
4.13
PREPARE REIMBURSEMENT CLAIMS
INVOICES
N
DEPOSIT SLIPS
DAILY INPUT SHEETS
H
DAILY INPUT SHEETS
EXPENSE TRANSACTIONS
G/L ACCOUNT SUMMARY BALANCE FOR
2
JOURNAL VOUCHERS FOR FRINGES, TRANSFERS
G
PARAMETER CARDS
4.10
PREPARE PARAMETER CARD FOR EXTRACTION REPORT
CORRECTIONS
4.11
CORRECT EXTRACTION REPORT
EXTRACTION REPORT
INVENTORY
F
4.12
PREPARE MONTHLY COMPARATIVE BALANCE SHEET
COMPARATIVE MONTHLY BALANCE SHEET

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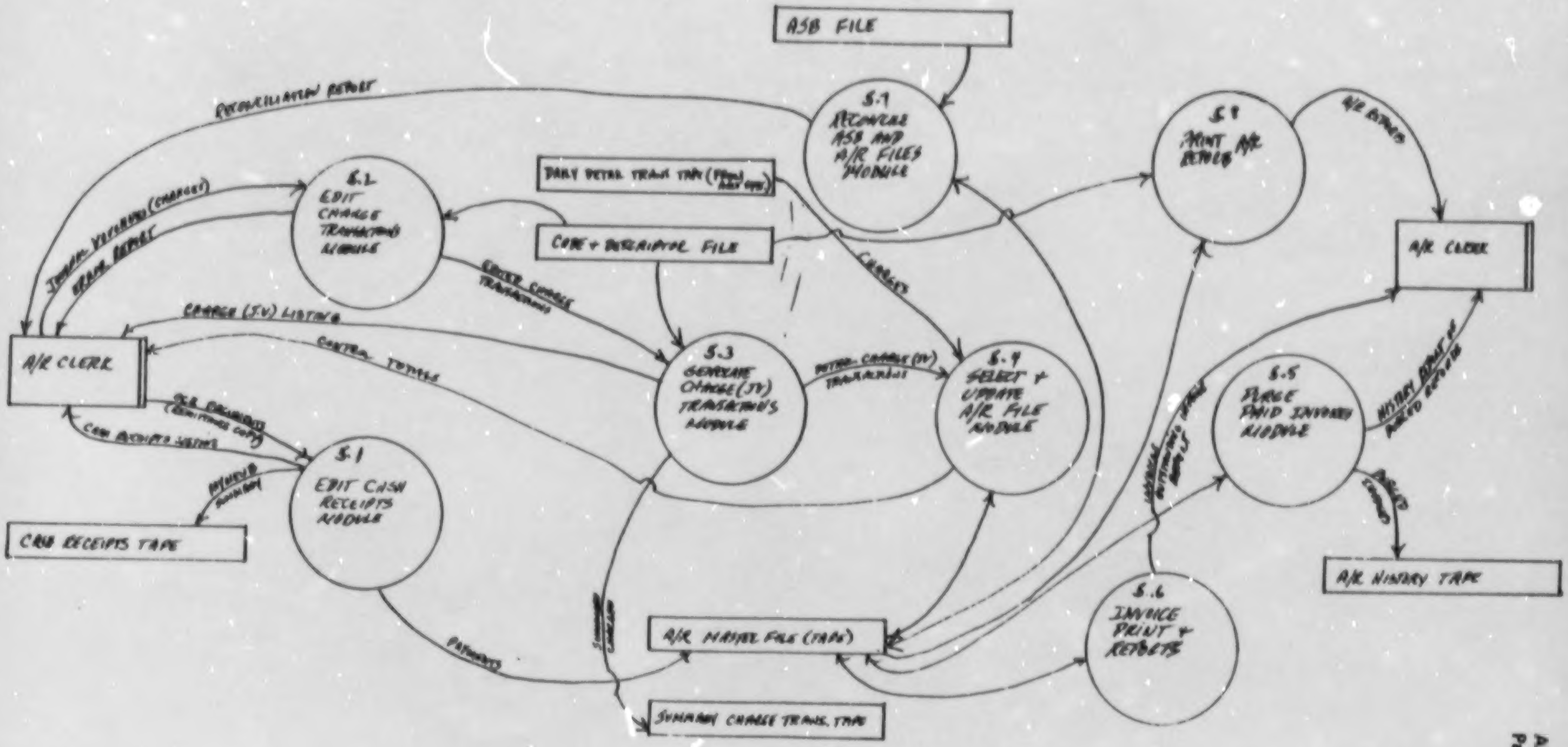
5.0 ACCOUNTS RECEIVABLE


ASB FILE
RECONCILIATION REPORT
5.7 RECONCILE ASB AND A/R FILES MODULE
5.8 PRINT A/R REPORTS
A/R REPORTS
DAILY DETAIL TRANS TAPE (FROM ...)
5.2 EDIT CHARGE TRANSACTIONS MODULE
JOURNAL VOUCHERS (CHARGES)
ERROR REPORT
CODE + DESCRIPTOR FILE
EDITED CHARGE TRANSACTIONS
CHARGES
A/R CLERK
CHARGE (J.V.) LISTING
CONTROL TOTALS
5.3 GENERATE CHARGE (JV) TRANSACTIONS MODULE
EDITED CHARGE (JV) TRANSACTIONS
5.4 SELECT + UPDATE A/R FILE MODULE
5.5 PURGE PAID INVOICES MODULE
HISTORY REPORT OF PURGED RECORDS
PURGED RECORDS
A/R HISTORY TAPE
A/R CLERK
O.R. DOCUMENTS (REMITTANCE COPY)
CASH RECEIPTS LISTING
5.1 EDIT CASH RECEIPTS MODULE
PAYMENTS
CASH RECEIPTS TAPE
SUMMARY CHARGES
A/R MASTER FILE (TAPE)
SUMMARY CHARGE TRANS. TAPE
5.6 INVOICE PRINT + REPORTS

APPENDIX II-A
Page 13 of 13

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III. Accounting Policies, Principles and Procedures

III. ACCOUNTING POLICIES, PRINCIPLES AND PROCEDURES

This chapter presents the findings and recommendations of our review of MCPS accounting policies, principles, and procedures. Our review of accounting policies, principles and procedures encompassed such areas as conformance to standards and requirements of appropriate oversight and authoritative agencies; documentation; development, promulgation, maintenance and application of policies, principles and procedures; comparison with other comparable school districts; and the need for additional accounting policies. Our findings and recommendations relating to accounting policies, principles and procedures are presented in three sections as follows:

- External Reporting
- Internal Policies and Procedures; and
- Documentation and Policy Formulation.

Each of these sections are presented below.

EXTERNAL REPORTING

We reviewed the external reporting of the Division as part of our review of conformance to standards and requirements of oversight and authoritative agencies. In addition, external reporting represents a significant portion of the workload of the Divison.

FINDINGS (External Reporting)

Our findings related to external reporting address the two areas of conformance of external reporting to applicable requirements and the monitoring and implementation of changes in external reporting. Each of these findings is discussed below.

(1) The external financial reports prepared by the Division appear to meet the standards and requirements of government agencies requiring such information.

The major annual report prepared by the Division is the State Annual Financial Report which is submitted to the Maryland State Department of Education (MSDE). The State has published a Financial Reporting Manual and annually indicates the format of the report and the data to be presented. According to personnel at MSDE, this report is filed by MCPS in a timely and complete manner. This report is compiled manually, however, and consumes an inordinate amount of time of the three professional accountants of the Division during the three months following the fiscal year-end close.

The Division also produces other reports for the MSDE on an annual or more frequent basis. Among these are an annual budget report, semiannual transportation reports, monthly food service reports and year-end and/or project closing reports on supported projects. These reports, which are compiled manually, appear to be filed in a timely and complete manner. A representative of the state confirmed the timeliness and completeness of these reports and also stated the MSDE has not withheld funding or taken any other action against MCPS due to untimely or inaccurate reporting.

The State Education Code does not mandate any particular accounting basis (accrual, modified accrual, or cash) or require compliance with generally accepted accounting principles. It does require, however, each local public school system to have an annual financial audit performed by an independent certified public accountant. The Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 1982 and prior years, have been examined by independent certified public accountants, and, in their opinion, the CAFR is in conformity with generally accepted accounting principles. The Comprehensive Annual Financial Reports have also been submitted to the Association of School Business Officials (ASBO) which awarded MCPS a Certificate of Excellence in Financial Reporting for the fiscal year ended 1982. This certificate program requires that the report be substantially in conformance with generally accepted accounting principles. This standard of external financial reporting is neither mandated by law nor required since MCPS issues no debt in the municipal bond market.

(2) Changes in reporting requirements appear to be monitored effectively and necessary changes implemented.

Changes in the reporting requirements of MCPS are monitored by the Division. The independent auditor is relied upon to notify MCPS of changes in accounting principles promulgated by the National Council on Governmental Accounting (the current authoritative source of generally accepted accounting principles for government). Division personnel also maintain contact with the MSDE and have served on the Maryland Accounting Manual Finance Project Team which produced the current Financial Reporting Manual. Division personnel also belong to relevant professional organizations which notify their memberships of changes in accounting and reporting policies. Finally, Division personnel review and formally respond to comments in the management letter received from the independent auditors.

RECOMMENDATIONS (External Reporting)

Our review of external reporting indicated improvements could be implemented in the following two areas:

- Production of external reports; and
- Standards of reporting.

Each recommendation is discussed below.

(1) The production of the State Financial Report and CAFR should be performed by an automated system.

The current State Annual Financial Report and the other reports prepared for MSDE, and the Comprehensive Annual Financial Report appear to be produced effectively and efficiently by the Division given the current, limited level of automated support. As stated previously, extensive manual intervention with the existing system is required to produce the MSDE and other reports. While the current automated system could probably be modified to produce these reports, this modification would probably require extensive resources and time to complete. We believe extensive modification of the existing system to meet this reporting requirement would be neither effective nor efficient when the current system does not meet other important needs of MCPS. Therefore, while we recommend these reports be generated automatically, we believe it should be accomplished in the context of a new automated accounting system.

(2) The current standards of reporting in the Comprehensive Annual Financial Report should be continued.

Receipt of an ASBO Certificate of Excellence represents an independent recognition that the CAFR meets the standards for financial reporting under generally accepted accounting principles. In addition to assuring public confidence in the accuracy and reliability of the financial statements, conformance to these standards demonstrates comparability, completeness, and clarity, and facilitate the consolidation of MCPS statements with those of the County as now appears to be required under National Council on Government Accounting (NCGA) Statement 3.

INTERNAL POLICIES AND PROCEDURES

This section presents our review of the accounting policies and procedures used by the Division. Our review included an analysis of the current procedures for processing transactions into the accounting system. We also reviewed the policies for the classification of transactions, the control of expenditures and the verification of transaction accuracy.

FINDINGS (Internal Policies and Procedures)

Our findings related to internal policies and procedures address the following subject areas:

- Chart of accounts;
- Accuracy of data;
- Conversion to accrual basis; and
- Control and availability of funds.

Each of these findings are presented below.

(1) The MCPS chart of accounts appears unwieldly.

The MCPS accounting system appears to be providing greater detail than needed for the control of expenditures at the level of responsibility adopted by the Board of Education. The MCPS chart of accounts is structured to account for expenditures at the school level for objects of expenditures. Similarly, the large number of distinct units in the office, department, division organizational scheme outside the schools and area offices requires a large number of accounts to record payrolls and objects of expenditure. This level of detail does not reflect the actual areas of responsibility of the primary and secondary account managers.

(2) The policies of the Division for detailed reconciliation lead to inefficiency in transaction processing.

The policies and related procedures within the Division for detailed review of transactions sometimes generate work that appears unnecessary or inefficient. Bank reconciliations, invoice extensions, payment records and other documents are reviewed and corrected to reconcile errors of less than a dollar and sometimes only a few cents. The cost in personnel time spent in such error correction often exceeds the costs of these immaterial discrepancies.

(3) Excessive time is spent by MCPS maintaining the accounting records on a cash or budgetary basis and converting to a modified or full accrual basis at year-end.

In order to facilitate budget control and reporting, MCPS, like many governments, maintains its accounting records on a budget or cash basis and converts to a modified or full accrual basis for financial reporting purposes at fiscal year-end. The monthly profit and loss statements produced for the school cafeterias are the only other reports produced on an accrual basis. However, the data collection effort and many of the transactions necessary for the monthly or annual conversions to modified or full accrual basis are prepared manually by professional accountants, even though many of them are of a routine or bookkeeping nature. The clerical staff rather than the professional accounts should be able to prepare the data for conversion.

(4) The policies for control of the availability of funds are not consistent.

It is the policy of the Division to control the availability of funds for purchases made through the procurement system by encumbering funds prior to issuance of a purchase order. However, except for capital budget expenditures, there is no requirement that funds for other contractual obligations be encumbered at the time that MCPS enters into a contract. Account managers may request that such an encumbrance be made through the encumberance authorization transaction, but this is not mandatory. Finally, as was pointed out in the MORE study on the Division of Procurement, significant numbers of purchases are made directly without purchase orders or contracts, and invoices are processed with only the secondary account manager (or lower level management personnel) signature necessary for payment. Examples of these transactions are direct purchases made through Food Service or reimbursements made for expenditures from school Independent Activity Funds. Finally, the Division does not control salary expenditures.

RECOMMENDATIONS (Internal Policies and Procedures)

Our review of the Division's internal policies and procedures resulted in recommendations in the following areas:

- Chart of Accounts;
- Reconciliation of discrepancies;
- Conversion to accrual basis; and
- Consistency of control.

Each of these recommendations are explained below.

(1) The chart of accounts should be reduced in size.

The chart of accounts should be reduced to the level needed to meet external reporting requirements and the level of responsibility assigned by the Board of Education to the primary and secondary account managers. The cost accounting functions should be performed by a separate cost accounting system or other mechanism. This should substantially reduce the amount of file maintenance and simplify the preparation of reports.

(2) Minor discrepancies in accounting data should be adjusted without major reconciliation efforts.

A policy should be established to authorize the adjustment of minor accounting discrepancies with the authorization of appropriate Division personnel, without a detailed reconciliation. Such a policy, with appropriate dollar limits, would provide that an inordinate amount of resources would not be spent to correct an error or discrepancy. This would eliminate the current practice of identifying and correcting immaterial differences in records such as vendor extensions, bank reconciliations and payment records.

(3) The recording of data and transactions necessary for the conversion to a modified or full accrual basis should be automated and/or reassigned.

The current accounting system is not capable of automatically generating the necessary transactions to perform the cash to accrual conversion. These transactions are generated currently by the accountants in the Division based on data they are keeping manually or that is collected by the system but not formatted for automatic transfer. Even if these transactions are not automated, their level of complexity does not always require that an accountant generate the monthly or annual journal voucher to enter the data. The simple transferring of data from one system to another could be performed by an account clerk or supervisor.

(4) The level of control on all types of expenditures should be consistent.

The funds for goods and services procured by means of a purchase order are encumbered prior to issuance of a purchase order. However, procurement of items by direct purchase or by contract are not encumbered. Further, the Division compares invoices against purchase orders, but not against other contractual instruments, prior to payment. Therefore, we recommend funds for all procurement actions, above a given dollar value, be encumbered and all invoices be compared against the valid contracting instrument prior to payment.

DOCUMENTATION AND POLICY FORMULATION

This section presents our review of the documentation of the Financial Information System and the development, promulgation, maintenance, application, and documentation of accounting policies, principles and procedures.

FINDINGS (Documentation and Policy Formulation)

Our findings on documentation and policy formulation address the following three areas: documentation of the existing system; accounting manual documentation; and policy formulation procedures.

(1) The current Financial Information System does not appear to be documented adequately.

The current user documentation of the Financial Information System is not organized in a coherent, systematic and comprehensive manner. Much of this documentation was produced as components of the system were designed and/or installed. Further, this documentation has not been updated or revised to reflect changes in the system or the associated manual processes due to revisions, or new systems being added.

(2) There is no accounting manual which describes the policies and procedures used in the Division.

There is no single reference volume for classifying, controlling and entering accounting transactions. As a result, there is extensive reliance on the institutional knowledge and memory of the professional accounting and management staff of the Division. There is also no source of information on policies and procedures for personnel in other organizational units or higher management except verbal communication with Division personnel. A draft manual on controlling expenditures was produced for training purposes in the Fall of 1982. However, this document is not a comprehensive manual that covers all the possible accounting transactions. Rather, it is primarily a description of the monthly reports that account managers receive and how to understand and use them.

(3) MCPS Executive management above the level of the Office of the Director does not appear to be involved in the development of accounting policy.

At present, the financial management portion of the Policies and Regulations Handbook contains only a very broad policy statement by the Board of Education on fiscal responsibility and control. The subsection of the Handbook on fiscal accounting and reporting does not contain any policies or administrative regulations with respect to policies and procedures to be used in reviewing accounting policy. Thus policy changes on formulation are currently performed on either an ad hoc basis within the Division or are referred to higher level management within the Office of Supportive Services. Therefore, accounting policy decisions and rationale are not documented formally for easy reference. An example of this is the use or non-use of internal service funds to account for those activities and units within MCPS which serve only other units within MCPS. Finally, there may be an over reliance on the recommendations and advice of the outside auditors in the absence of a clearly formulated set of internal policies to establish the goals and purposes of the accounting functions.

RECOMMENDATIONS (Documentation and Policy Formulation)

Our review of internal policies and procedures resulted in recommendations in three areas as follows:

- Production and maintenance of system documentation;
- Accounting manual;
- Adoption of accounting policies.

Each recommendation is presented below.

(1) A comprehensive description of the current accounting systems and the associated manual processes should be produced and maintained.

Comprehensive documentation of the operation of the current Financial Information System should form the basis for training and orientation of employees and for reviewing and revising current procedures and policies. This documentation could also facilitate the assessment of the impact of changes in policies on procedures and workloads. Finally, such comprehensive documentation could serve as a base line for assessing the ability of any new proposed automated accounting system to meet the needs of MCPS.

(2) An accounting manual should be produced which describes the policies and procedures of the Divison.

An accounting manual should serve as both an internal reference document for the Division and as a guide for other users of the Financial Information System and its information. It should also serve as a useful training document for new account managers and others who are assuming financial responsibility for operations.

(3) The accounting principles and policies of MCPS should be reviewed formally and adopted by the Superintendent and/or the Board of Education.

Creation of the accounting manual in Recommendation (2) above, should facilitate a means for the Superintendent and/or the Board of Education to adopt formally a set of controlling principles and policies for the financial accounting function. In addition, this would clarify the goals of the accounting function and help meet the internal management information needs as well as external reporting requirements.

* * * * *

This chapter presented the findings and recommendations related to the accounting policies, principles, and procedures of MCPS. The next chapter presents our review of the functions and responsibilities of the Department and Division.

IV. Functions and Responsibilities

IV. FUNCTIONS AND RESPONSIBILITIES

This chapter presents our findings and recommendations related to the functions and responsibilities of the Office of the Director, the Division, and decentralized accounting functions outside the Department. Our review included an evaluation of the nature, scope, emphasis and distinction between the functions and responsibilities of the organizational units. In addition, we attempted to determine any duplicating of these functions and responsibilities, the potential for reassignments, and the appropriate degree of centralization of the accounting function.

FINDINGS (Functions and Responsibilities)

This section presents our findings related to the functions and responsibilities of the Office of the Director, the Division, and the decentralized accounting functions outside the Department. Our review resulted in findings in the following subject areas:

- Cash collections;
- Receivables;
- Summer school and adult education registrations, transfers and refunds;
- Cash management;
- Recordkeeping;
- Inventory observations;
- Function of performance against budget;
- Outstanding receivables;

- Maintenance of "cuff" records;

- Account managers monitoring and control of accounts;

- Overall control of MCPS expenditures; and

- Centralization of the accounting function.

The findings in each of these areas are discussed below.

(1) Office of the Director responsibility for MCPS cash collections provides adequate internal control.

A financial receipts clerk assigned to the Office of the Director is responsible for opening mail addressed to the Department of Financial Services. The clerk collects all checks and cash from the mail, restrictively endorsing all checks, classifying the revenue and preparing daily deposits. The deposits are then taken to the bank by either the Director's secretary or a messenger. The financial receipts clerk then forwards a copy of the deposit slip and any remittance advices to the accounts receivable clerk in the Division.

This responsibility was assigned to the Office of the Director to provide adequate internal control and segregation of duties between the accounts receivable function, located in the Division, and the cash collection function. This arrangement appears to provide adequate internal control and segregation of duties for cash collections.

(2) There is no one organizational unit responsible for receivables.

The financial receipts clerk in the Office of the Director is responsible for maintaining manual receivable records for benefit coverage for those employees who are on leave. This includes receiving payments from those employees and posting their payments to a card file as well as notifying the Insurance and Retirement Division of those employees who have not paid. The Division is responsible for all other receivables. We believe, in this instance, it would be more efficient to have one organizational unit responsible for receivables. Further, effective internal control is not exercised when the financial receipts clerk is responsible for both cash collections and a part of the receivables function.

(3) The Director's office provides adequate control over the processing of summer school and adult education registrations, tuition and refunds.

The Director's secretary, using approximately 600 hours of part-time summer personnel, is responsible for processing summer school and adult education registrations, transfers and refunds. This includes receiving registration forms and tuition checks which are assigned a registration number and given to the financial receipts clerk who subsequently prepares deposits. The original registration forms are batched in groups of 50 and forwarded to Data Processing for keypunching and posting to the Summer School Registration System. The Office of the Director subsequently processes any returned checks and requests for tuition refunds. This arrangement appears to provide adequate internal control over registrations, tuition, and refunds.

(4) There is no formal cash management function within the Department.

Cash management has been an exclusive responsibility of the County, therefore, MCPS has not taken an active role in this area. The exception to this is the pooled investment of Independent Activity Funds and School Lunch Fund which is the responsibility of an employee of the school system on a contract basis.

Historically, the County has performed the cash management function because of its responsibity for revenue collection and management of cash accounts. The other major factors which have resulted in MCPS not becoming involved in cash management are: (1) cash from the County is advanced to MCPS on a daily, as needed basis, and (2) all investment income reverts to the County general fund.

We believe MCPS could become more active in cash management of its disbursements by more aggressive management of its payments. Conversely, we believe the County should investigate a policy whereby disbursement agencies such as MCPS could be rewarded for fiscal initiative. For example, it would be feasible for MCPS to retain at least a portion of the investment income earned as a result of its initiatives. Indirectly, additional revenues to the County are additional revenue to MCPS.

(5) The Division adequately maintains the financial records of MCPS.

Based on the extent of our review, the Division appears to process financial transactions adequately, meet external reporting requirements and maintain accurate financial records. This is achieved while utilizing an outmoded, labor intensive accounting system which lacks many of the features of current governmental accounting systems.

(6) The Division is responsible for inventory observations and inventory reconciliations. The Division of Administrative Analysis and Audits also conducts inventory observations.

The General Accounting Section within the Division is involved currently in planning MCPS physical inventories. In addition, they are responsible for inventory observations and reconciliations with the general ledger control accounts. The Divison of Administrative Analysis and Audits of the Department of Eductional Accountability also conducts inventory observations.

(7) There is no effective evaluation of the financial performance of account managers against their budget.

The accounting specialist in the Division is responsible for consolidating the surplus/deficit projections prepared by the account managers. However, because the accounting specialist is not involved with or knowledgeable of the process and data associated with preparation of the program budget, the Division's capability to effectively evaluate program financial performance is limited.

(8) Insufficient emphasis is placed on the management of outstanding receivables.

Currently, the Division has assigned responsibility for the management of outstanding receivables to a clerk who also is responsible for billings and collections and the issuance of all MCPS payroll checks. As of June 1983, there were approximately $1,100,000 in outstanding receivables, a majority of which were over 60 days old. Approximately $425,000 of these receivables were with Montgomery County for withdrawals from MCPS warehouses. The County has been non-responsive to the requests by the Division for payment. Another $200,000 of receivables is due from the National Institutes of Health for home and hospital teaching and reimbursement due for adult education tuition. The remainder of the outstanding receivables is due from numerous agencies for after school use of facilities. The aged receivables listing does not appear to help the process since it does not provide summary totals and detail ageings are in error due to inaccurate data entry in the invoice date field. It is our conclusion the clerk responsible for the MCPS receivables function does not have sufficient time or resources to devote to collecting overdue receivables.

(9) Account managers are maintaining "cuff" records due to the absence of timely financial information.

Most account managers maintain manual "cuff" records in order to monitor current account balances. The accounting system does not have the capability to account for commitments and the Operating Budget Report does not provide timely financial information.

(10) Primary and secondary account managers do not effectively monitor and control the accounts for which they are responsible.

Primary and secondary account managers have not, for the most part, done an effective job of monitoring and controlling their accounts. This situation is the result of a number of factors including:

- Approximately 90 to 95% of MCPS expenditures consist of position salaries, fringe benefits and fixed expenses such as utilities. This leaves only 5 to 10% of budgeted funds under the direct control of most account managers;
- Budget requests for position salary accounts are by

number of positions rather than budgeted dollars. The dollars associated with these requests are developed by the Department of Budget Planning and Development without input from account managers who will subsequently be responsible for those salary and fringe benefit accounts beginning July 1;

- Account managers often lack complete information on both payroll and personnel actions which relate to position salary accounts;

- Financial management capability or experience is not explicitly required of account managers and is not currently a formal criteria considered in performance evaluations.

In the past there has been financial training for account managers, but it has not resulted in effective financial management by account managers.

(11) There is no individual or organizational unit currently exercising overall budgetary control of MCPS expenditures.

Budgetary control of MCPS expenditures is fragmented among a number of individuals and organizational units including over 80 account managers, the Department, the Department of Budget Planning and Development and the Superintendent's Office. Because there are no state category account managers, there appears to be no effective control over spending at this level. Account managers do not receive any information relative to their overall spending on a state category basis.

There is apparently no overall, consistent and clear policy on overencumbering or overspending that has been communicated to account managers. In some instances, this situation appears to result in budget transfer requests in order to avoid overexpending by state category due to the lack of effective control of actual performance against budget.

(12) The MCPS accounting function appears to be properly centralized.

The MCPS accounting function is centralized. The Division of Accounting maintains the official financial records of MCPS. Other organizations and systems interface with the FIS to provide it source data, as does procurement (purchase orders, contracts, etc.) and user agencies (invoices, receiving reports), but FIS is the only MCPS accounting system. Cuff records are not considered accounting systems.

The centralization of the accounting function appears to serve MCPS effectively and efficiently. The quality of accounting data, both input source documents as well as output reports, appears adequate, which could be undermined with a decentralized accounting function. Further, the accounting needs of the offices, departments, and divisions of MCPS appear to be met by the present centralized accounting function (excluding the deficiencies of the current accounting system software). Decentralization of the accounting function would probably reduce the economies and efficiency of the Division of Accounting through duplication of accounting activity in other MCPS organizations.

RECOMMENDATIONS (Functions and Responsibilities)

This section presents our recommendations based on the above findings. Our recommendations address the following subject areas:

- Cash collections;

- Receivables;

- Cash management;

- Physical inventory responsibility;

- Evaluation of performance against budget;

- Control of budget expenditures; and

- Centralization of the accounting function.

The recommendations in each of these areas are discussed below:

(1) The Office of the Director should continue to process cash collections.

The cash collection function should be segregated from the receivables processing function which takes place in the Division in order to maintain adequate internal control. Given this segregation of duties, the Director's Office appears to provide effective and efficient control of cash collections. We therefore recommend that cash collection remain a responsibility of the Director's office.

(2) The processing of receivables should be consolidated in the Division and the management of receivables should receive increased emphasis.

The entire accounts receivable function should be consolidated in the Division rather than being split between the Office of the Director and the Division to improve internal control, provide segregation of duties and increase efficiency.

In addition, we recommend that one of the accountants in the General Accounting Section be responsible for managing the accounts receivable function with increased emphasis placed on delinquent collections and improving cash flow.

(3) A formal cash management function should be established within the Division.

It would be beneficial to the County for MCPS to develop a formal cash management program to maximize investable funds whether or not MCPS receives the interest income. Significant additional interest income could be earned if MCPS disbursements were managed utilizing proven cash management techniques. The individual responsible for cash management could also be responsible for oversight of the investments of the Employee Benefit Trust Fund, the Pension Fund and the IAF Central Investment Fund.

(4) The Division of Administrative Analysis and Audits of the Department of Educational Accountability should only be responsible for inventory observations.

The Division of Administrative Analysis and Audits should be responsible for conducting inventory observations and test counts and in reviewing reconciliations performed by the Division. The Division should be responsible for maintaining inventory data, and recording adjustments to the financial records. Both divisions should not perform inventory observations, and the most appropriate organization to perform this activity is the Division of Administrative Analysis and Audits because of their independence and objectivity.

(5) Evaluation of financial performance against budget should be performed by the Department of Budget Planning and Development.

The Department of Budget Planning and Development should be the one organizational unit most familiar with MCPS programs other than the account managers. They participate in the development of program budgets and are knowledgeable of the nature of the programs. Further, they can provide independence and objectivity in utilizing data from the Division to evaluate program and account manager performance.

(6) The Department of Budget Planning and Development should be responsible for the overall control of MCPS budget expenditures.

In order to consolidate control over MCPS budget expenditures we recommend the Department of Budget Planning and Development be given the responsibility for controlling all salary and fringe benefit expenditures and be responsible for control of expenditures by state category.

Account managers should be responsible only for those accounts over which they exercise direct control. As an example, in some instances an account manager may actually control only their supplies account, in which case they would only be responsible for that account. They would not, however be responsible for the salary accounts of their divisions.

(7) The accounting function is properly centralized.

Our review indicated that the degree of centralized accounting within MCPS appears adequate. Any effort to decentralize the accounting function could undermine the integrity, efficiency and effectiveness of the present centralized scheme which operates efficiently and effectively. Therefore, we recommend the current centralized structure of the accounting function be maintained.

* * * * *

This chapter presented our findings and recommendations related to functions and responsibilities. The next chapter presents our review of the organization, management and control of the Department and Division.

V. Organization, Management and Control

V. ORGANIZATION, MANAGEMENT AND CONTROL

This chapter presents the findings and recommendations of our review of the organization, management and control of the Department and Division. We reviewed the location of the Department within MCPS, the organization of the Department, the organizational structure of the Division, management goals and objectives for the Division and the accounting system, operating procedures, personnel functions and roles and work assignments.

FINDINGS (Organization, Management and Control)

This section presents our findings relative to the management, organization and control of the Department. Our findings address the following subject areas:

- Goals and objectives above the level of the Department;
- Organization, location and control of the Department;
- Organization, location and control of the Division;
- Goal and objectives of the Division; and
- Documentation of procedures, roles and work assignments.

Each of these findings are presented below.

(1) Management goals and objectives above the level of the Department appear clearly defined for effective control with the exception of responsibility for evaluation of financial performance against budget.

Our review indicated MCPS goals, objectives and responsibilities for the evaluation of financial performance against budget were unclear. During our review it became apparent that the Superintendent and Director of the Department had different interpretations regarding the budget evaluation function. Neither the responsibility nor the type of budget evaluation required were clear.

Based on our review, the Department of Budget Planning and Development appears most appropriate to effectively and efficiently evaluate financial performance against budget. Other than the account managers, the Department of Budget Planning and Development should be the department with the most overall knowledge of MCPS Programs. The Department of Budget Planning and Development is in a better position to be objective and independent in evaluating financial performance against budget, since they are not responsible for maintaining MCPS financial records or management of specific programs. Based on this capability in the MCPS organization, they should be able to independently and objectively evaluate both financial data and program performance to determine effective program performance versus budget.

Therefore, the Department of Budget Planning and Development should be given organizational independence and objectivity from the MCPS programs it is responsible for evaluating. This could be accomplished by having them report to either the Superintendent or the Associate Superintendent for Supportive Services. The impending MORE study of budget should address their specific location and reporting responsibility within MCPS. In contrast to MCPS, where budget reports to the non-financial oriented Associate Superintendent for Instruction and Program Development, in Anne Arundel public schools budget reports to the Assistant Superintendent for Management and Fiscal Services; in Prince Georges public schools budget reports to the Assistant Superintendent for Business and Facilities; in Baltimore County public schools budget reports to the Associate Superintendent for Business and Finance; and in Baltimore City budget reports to the Assistant

Superintendent for Fiscal Management.

(2) The Department is located effectively within MCPS.

Based on our review of the functions and responsibilities of the Department it appears to be located effectively within MCPS's organization and management structure. The Department performs a supportive service within MCPS. Therefore, location of the Department within the Office of Supportive Services appears to result in efficient and effective use of resources.

During the course of this study we reviewed the organizational structure of Baltimore County, Prince George's County, Anne Arundle County and the City of Baltimore school systems and determined that their finance departments were located organizationally in the same relative position as MCPS's Department of Financial Services.

(3) The Department appears to be organized effectively.

Our review of the current organization of the Department indicated the organization structure to be effective in supporting its assigned functions and responsibilities. The Department consists of the Divisions of Accounting, Insurance and Retirement, and Payroll. These three Divisions perform the official accounting and financial activities of MCPS. Each of the three Divisions are responsible for separate and discrete activities, which are organized logically. Therefore, it appears effective and efficient to have these three Divisions reporting to the Department of Financial Services. However, the scope of this management study did not include an in-depth review of the functions and responsibilities of the Division of Payroll or the Division of Insurance and Retirement.

(4) The organization of the Department and its location within the MCPS organization and management structure provide

effective control. However, two deficiencies in management control within MCPS impact the Department.

Two deficiencies were identified within the Department relative to control. Finding (1) above cited the lack of budgetary control over proposed expenditures in excess of budget by the Department for which we suggested control should be more appropriately vested with the Department of Budget Planning and Development. The other control deficiency, cited in Chapter III - Accounting Policies, Principles and Procedures, is the inability of the Department to obtain copies of all procurement documents (purchase orders, contracts, etc.) that should be encumbered by the Division. Effective management control within MCPS necessitates that these two deficiencies be corrected.

(5) The organizational structure of the Division appears effective for proper internal control with the exception of the Input/Output Control Section.

The Division is divided into four organizational units: Accounts Payable; Cafeteria Accounting; General Accounting and Reporting; and Input/Output Control. The activities performed by Accounts Payable are logically related and the processing flows appear efficient given the current Financial Information Sytem.

The Cafeteria Accounting Section is organized effectively in that the activities performed by this section are all related to MCPS's school lunch program. Further, the processing flows within the Cafeteria Accounting Section appear efficient. Cafeteria accounting performs some payable activities similar to the Accounts Payable Section, however, the degree of interaction of the Cafeteria Accounting section with the cafeteria's and with Food Service gives this section effective organizational unity.

The General Accounting and Reporting Section is responsible for internal and external financial reporting and general accounting. The organization of these responsibilities into one section appears logical. Further, our review of the operation of this section appeared efficient and effective given the limitations of the existing Financial Information System.

The Input/Output Control Section has three discrete functions: control of data to and from the automated systems of the Division; accounts receivable; and identification of potential fixed assets. We believe the General Accounting Section could be more efficient in maintaining accounts receivable than the Input/Ouput Control Section. The maintaining of accounts receivable is more logically a general accounting function, discretely separate from the control of data for automated processing.

(6) The goals and objectives of the Division are defined clearly.

The Division has established goals and objectives relative to the majority of their activities. However, they are not documented with the exception of the goals established annually in their budget. The Division's objectives are related to their daily processing requirements, i.e. invoices should be paid within 3-4 days of the receipt of a receiving report, monthly financial statements should be distributed to account managers with 4 working days of month end, etc. Generally, these goals and objectives are met effectively and efficiently. Further, the management of the Division does in fact monitor performance against these goals and objectives. The organizational structure of the Division, with the exception of the Input/Output Control Section as noted above, facilitates the management of these goals and objectives as set by the Division.

(7) Operating procedures are documented and followed; line, staff and supervisory roles are defined clearly; and work assignments are defined clearly and consistent.

The employees interviewed had a clear understanding of their duties and responsibilities and associated procedures. Work processing deadlines and goals have been documented and diseminated to all division personnel. Specifically, the year-end closing process is documented very well with task and deadlines assigned clearly to the appropriate employees. Employees were motivated effectively and there has been little turnover in the past. Supervisory functions have been defined clearly such that the employees interviewed were well aware of their reporting responsibilities. Personnel assignments were defined clearly and are consistent with the functions and responsibilities of the Division.

(8) The Department of Financial Services appears to be adequately managed.

The Department appears to focus on proper issues. The Department has adequately followed the development of the National Committee on Governmental Accounting Statement 3 to anticipate the impact of this reporting requirement on the Department. Further, the Department appears to adequately monitor and control the programs for which it is responsible, such as the Employee Benefit Trust Fund, the County-wide risk management fund and the Employee Pension Fund.

RECOMMENDATIONS (Organization, Management and Control)

Our review of the organization, management and control of the Department and Division resulted in recommendations in the following areas:

- Policies and procedures for evaluation of performance against budget and encumbering of funds;

- Responsibility for receivables; and
- Documentation and publication of goals, objectives, operating procedures, roles and work assignments.

Our recommendation in each area is discussed below.

(1) Policies and procedures should be established for the effective control of the financial performance of account managers and for the encumbering of all procurement documents.

We recommend the responsibility of evaluating financial performance against budget be defined clearly. Further, we recommend this responsibility be assigned to the Department of Budget Planning and Development. This issue should be explored more fully in the MORE study of the Department of Budget Planning and Development. In addition, we recommend the establishment of procedures to require the Division of Procurement to inform the Division of any procurement action that should result in the encumbrance of funds.

(2) A new section within the Division should be established to be resonsible for receivables.

We recommend the formation of a new section within the Division to be responsible for processing all MCPS receivables. Processing of receivables by the Input/Output Control Section is not compatible with their other functions. Further, processing receivables by two different groups, the Office of the Director and Inut/Output Control, is not efficient. Since receivables is commonly a specific accounting activity, a Receivables Section within the Division should be established.

(3) The Department and Division should organize, codify and publish their goals, objectives, operating procedures, roles and work assignments.

The Department and Division have documented effectively their operating procedures, roles and work assignments. We recommend the Department and Division document their goals and objectives. These goals and objectives, operating procedures, roles and work assignments should be organized effectively and published for use within MCPS. As a support agency, user organizations should be fully aware of the scope of support available from the Department and Division. Further, this documentation could assist Department and Division employees in performing their duties, and reduce reliance on supervisory personnel.

* * * * *

This chapter presented our findings and recommendations related to organization, management and control. The next chapter presents our review of staffing, costs and budgets.

VI. Staffing, Costs and Budget

VI. STAFFING, COSTS AND BUDGET

This chapter presents our findings and recommendations related to the staffing, operating costs and budget of the Division and the Office of the Director. It also presents, for comparison, data collected from the four other major public school systems in the State of Maryland. The chapter is organized into four parts:

- Historical Costs and Trends;
- Clerical Staffing;
- Professional and Supervisory Staffing; and
- Other Public School Systems.

The scope of our review related to Division staffing included changes in staffing levels, adequacy of the staffing levels distribution of staff, appropriateness of tasks, degree of specialization, workloads, training, and comparison with other jurisdictions. Our review of costs and budget in the Division included the reasonableness of the cost of the current system, trends in costs, and cost in comparison with other schools.

Our review was not a work measurement study which would employ a detailed methodology for measuring specific staff workloads. Similarly, our review of other school systems was limited, at MCPS request, and did not include a detailed analysis of how specific school system functions and responsibilities within budget categories would relate to corresponding systems.

HISTORICAL COSTS AND TRENDS

Our discussion of historical costs and trends is presented to provide a general description of changes in the level, mix and cost of staff in the Division. Because it is intended to be descriptive, no recommendations are presented in this section.

FINDINGS (Historical Costs and Trends)

Our findings relative to historical costs and trends focused on the level and mix of staffing and the associated costs. They are as follows:

(1) The level and mix of staffing in the Division of Accounting has remained constant.

The level and mix of staffing in the Division has remained constant at thirty one (31) positions since 1980 (when an account clerk position was transferred in from the Office of the Director.) The 1984 Board of Education Adopted Budget reduces the number of account clerk positions by one (with retirement eliminating one person). The Office of the Director had three positions until 1983 when a financial systems analyst position was added to assist in the development of the requirements for a new automated accounting system. All four positions are continued for 1984.

(2) Division and Office of the Director expenditures have grown at a faster rate than the MCPS total budget since 1979.

The total expenditures and budget amounts for the Division and the Office of the Director are shown in Exhibit VI-1. Also shown in Exhibit VI-1 for comparison are the total expenditures and budget for MCPS. The 1984 budget for MCPS is 38.4% higher than the actual 1979 spending level. In comparison, the 1984 budget for the Division and the Office of the Director is 55.1% higher than their 1979 spending level. The primary reason for the lesser percentage growth in the overall MCPS budget during this period was the reduction in costs due to declining enrollment. However, the declining enrollment did not

EXPENDITURE TRENDS 1979 - 1984
(in Thousands)

MCPS, OFFICE OF THE DIRECTOR OF FINANCIAL SERVICES AND DIVISION OF ACCOUNTING

UNIT	1979	1980	1981	1982	1983 (Budgeted)	1984 (Budgeted)
Division of Accounting						
• Personnel Costs	481.6	527.2	578.1	646.5	701.4	732.7
• Other Costs	4.7	.8	1.4	1.6	4.5	4.7
Total	486.3	528.0	579.5	648.1	705.9	737.4
Office of the Director						
• Personnel Costs	71.7	74.5	82.5	87.3	126.3	137.2
• Other Costs	21.7	20.2	23.8	27.5	27.7	24.5
Total	93.4	94.7	106.3	114.8	154.0	161.7
MCPS Total Expenditures	269,146.4	283,965.0	310,302.0	331,546.2	354,098.9	372,432.8

EXHIBIT VI-1

materially impact the workload or budget of the Department and Division.

During the past five years the total numer of Division personnel and related basic accounting operations have remained constant, however, there has been a dramatic change in the external reporting requirements and procedures. The publication of the National Council on Governmental Accounting (NCGA) statements, and changes in the requirements and formats of the Maryland State Department of Education (MSDE) Annual Financial Reports have led to increased effort in establishing routines for the annual closing of the books and the related preparation of annual reports. Both of these external reporting requirements have added to the workload of the Division in addition to creating the necessity to train and orient personnel on new proceudures and requirements each year. For example, the latest changes require that the annual financial reports be produced approximately three months sooner than in previous years.

Another impact on staffing during the period was the elimination of an accountant position in the Division of Insurance and Retirement in 1981. This necessitated that some of the functions which that position performed be absorbed by personnel in the Division.

CLERICAL STAFFING

This section presents our findings and recommendations related to clerical staffing. Our review of clerical staffing is presented separately from our review of professional and supervisory staffing (in the next section) because of the significant difference in their duties and responsibilities.

FINDINGS (Clerical Staffing)

Our findings related to clerical staffing address the following topic areas:

- Level of staffing;
- Fluctuations in workload;
- Impact of school lunch inventory control system; and
- Proposed reduction of one account clerk position.

Our findings in each of these areas are presented below:

(1) The current level of clerical staffing appears to be adequate

The current level of clerical staffing in the Division consists of one administrative secretary to the Director, one office assistant in General Accounting, three account clerks in Input/Output Control, thirteen account clerks and an office assistant in Accounts Payable and four account clerks in Cafeteria Accounting. This level appears to be adequate to meet the current responsibilities and workload of the Division. Transactions are processed in a timely and accurate manner; invoices are paid either at face value or at discount; and there are few complaints reported from vendors, or others, of late or inaccurate payments. It does not appear that the clerical staff has significant amounts of unproductive or slack imbalances. Incoming work is sorted and organized in such a manner as to provide each employee with work to do when they arrive in the morning and to carry over to the next day. Employees within each section appear to be familiar with each others work and able to be reassigned to accommodate peak periods.

(2) Seasonal fluctuations in workloads do not appear to result in efficiencies.

There are seasonal fluctuations in workload based on the time of year and whether schools and cafeterias are open. However, staffing assignments and the scheduling of work has been adapted to these variations. For example, the period of greatest need for clerical support in closing the books and preparing the various annual reports is during the summer months when transactions are at their lowest volume. Similarly, vacations appear to be scheduled when transaction volume is low.

(3) The school lunch inventory control system reduced the number of transactions in the Cafeteria Accounting Section.

The most significant impact on clerical staff in recent years has been the introduction of the School Lunch Inventory Control System (SLICS) and the Food Service Warehouse in the Division of Food Services in the Fall of 1982. These activities reduced significantly the number of transactions flowing through the Cafeteria Accounting section. It was projected that the reduction could be as much as a one-third decrease in the number of invoices processed. This workload reduction was offset partially by the transfer of this section of responsibility for the receipt, sorting and stamping of incoming mail, which consumes approximately one-half of a person day.

(4) The proposed reduction of one Account Clerk position should not materially affect transaction processing

The current proposed reduction of one account clerk position for 1984 should not materially affect transaction processing. However, the ability to respond to ad hoc requests or additional reporting requirement changes cannot be assessed since future requests or changes are unknown.

RECOMMENDATIONS (Clerical Staffing)

This section presents our recommendations relative to the above findings on clerical staffing. Our two recommendations address the need for additional data processing support and cross-training.

(1) Changes in data processing support should be made to increase productivity and reduce needed clerical staff

Significant improvements in clerical productivity and reductions in staff levels appear possible through changes in the level and type of data processing support and the associated methods of transaction processing. The current work methods are efficient, but improvements are constrained by the nature and capabilities of the current automated system.

After approximately six months of operating experience with the School Lunch Inventory Control system, there appears to be no significant reduction in the workload in cafeteria accounting.

(2) Clerical personnel should be cross-trained between sections

Some productivity improvement may be provided by increased cross-training of personnel between the three processing sections. Such cross-training would allow personnel to be reassigned temporarily to cover short-term peaks in workload apart from the current seasonal fluctuations.

PROFESSIONAL AND SUPERVISORY STAFFING

Our findings and recommendations related to Department professional and supervisory staffing are presented in this section. The review of professional and supervisory staffing addresses the management of the Division.

FINDINGS (Professional and Supervisory Staffing)

Our findings related to professional and supervisory staffing cover the following topic areas:

- Responsibilities of Accounting Specialist;
- Manual support of automated system;
- Workload; and
- Cross-training.

Our findings in each of these topic areas are presented below:

(1) There appears to be effective and efficient use of professional and supervisory staff, but the Accounting Specialist has too many responsibilities.

The Division's professional and supervisory staff consists of the following personnel: the Director, the accounting specialist, who functions as an assistant director, four professional accountants and two clerical supervisors.

One clerical supervisor oversees the Accounts Payable Section; the other oversees the Cafeteria Accounting Section; and one professional accountant coordinates the Input/Output Control Section. The General Accounting and Financial Reporting Section contains the three remaining accountants and is supervised by the accounting specialist. The accounting specialist also supervises the two clerical supervisors and the accountant, and backs up all the personnel reporting to her, and covers their areas of responsibility in their absence.

There appears to be an adequate number of supervisory personnel. All such personnel assist in the processing work as well as performing their supervisory duties.

(2) Accountants appear to spend time compensating for deficiencies in the current automated accounting system.

The three non-supervisory accountants spend much of their time during the school year preparing manual transactions to compensate for deficiencies in the current automated accounting system. They also prepare reports and schedules that the current system does not generate. Two of these accountants are involved in daily cash forecasting and two of them also do monthly bank reconciliations.

(3) The accountants workload is not balanced

The accountants workload is heaviest during the period from May to September when a new fiscal year budget is being implemented and the old fiscal year is being closed and external reports are being prepared.

(4) Accountants are not cross-trained effectively.

The accountants are familiar with one another's work but there appear to be limited cross-training or formal familiarization with each other's area of responsibility. They are all backed up by the accounting specialist.

These accountants are not utilized to study or prepare management information except for routine activities and are assigned primarily to prepare data for meeting external reporting requirements. The monthly financial report to the Board of Education is prepared by the accounting specialist based on the reports submitted by the primary and secondary account managers.

RECOMMENDATIONS (Professional and Supervisory Staffing)

Our recommendations related to professional and supervisory staff address two areas. One area is the reassignment of responsibilities and the other is utilization of cross-training.

(1) Some duties of the Accounting Specialist should be reassigned.

The accounting specialist appears to have too many duties and some of her back up responsibilities should be reassigned to other personnel. The Division should not be so dependent on one person to provide supervision of the clerical supervisors and the accountants, and the accounting activities for which she is personally responsible.

(2) Accountants should be cross-trained.

The accountants should also be cross-trained in the respective areas of specialization and in other financial areas. This should allow them to be utilized more fully during their slower period (September to May) and additional support supplied during the peak period (May to September) in order to level the workload.

OTHER PUBLIC SCHOOL SYSTEMS

We interviewed personnel responsible for the accounting functions in the Prince George's, Anne Arundel and Baltimore County public school systems to obtain information on their staffing levels and costs of operations. All of these systems are somewhat comparable in size to Montgomery County (ranging from 67,000 to 116,000 students) and all function under the same laws and requirements of the State of Maryland. The Baltimore City Public School system is not included since its financial operations are integrated into those of the City of Baltimore.

Direct comparisons at MCPS with those other major school systems are difficult due to differing organizational structures and divisions of responsibility. However, some comparisons can be drawn by isolating common areas of responsibility. The common areas are General Accounting and Financial Reporting, Accounts Payable and Food Service Accounting.

FINDINGS (Other Public School Systems)

Our findings resulting from comparison of MCPS staffing, costs and budget are in the areas of external reporting and auditing, staffing and costs.

(1) The external reporting and auditing requirements of each of the three school systems appear to be the same.

All school systems in the State are required to file the same reports with the State Department of Education, to produce an annual report on the basis of generally accepted accounting principles and to be audited. The organization and methods of the internal accounting function are left to the discretion of the individual boards of education. The only legal requirement is that each school system maintain solvency by state category and in total.

(2) MCPS appears to have more accounting staff than the other jurisdictions due to less data processing support.

Compared to the other three major school systems, MCPS has approximately the same number of staff as one district (31 compared to 30), but better than 75% more staff than the other two (31 compared to 17 and 18). The most significant difference in these two districts is that they indicated a very good level of data processing support with most adjustments performed automatically, and in one case, the annual state report actually being transmitted on computer tape instead of being prepared manually.

The school district with an accounting division the size of MCPS has an accounting system that was developed approximately 10 years ago by in-house staff. The features of the system include batch processing, partial automation of external reporting, on-line inquiry, and several automated interfaces. Thus, this system appears to be somewhat more advanced than that of MCPS.

(3) Costs of operating the accounting operations of the three school systems do not appear to be subject to meaningful, detailed comparisons.

The three school systems used for comparison of staffing level each organize their accounting functions differently. They also organize and present the associated budget and cost information in differing manners. Therefore, it is diffiult to provide cost comparisons in the absence of a detailed budget and cost analysis which was not possible within the scope of our review.

In addition, a major component of costs in all three school systems is personnel which can vary in salary as well as number. Since salary differences between jurisdictions vary for reasons other than the nature of the work being performed (e.g. absence or presence of a union, labor market competition), a comparison based on cost may not reflect true differences in efficiency or effectiveness.

RECOMMENDATION (Other Public School Systems)

It appears a significant savings in manual processing could be achieved through new or added data processing support in the Division. We recommend MCPS evaluate staffing needs and impact based on any new or additional data processing support prior to acquisition of such support.

* * * * *

This chapter presented our findings and recommendations resulting from our review of staffing, costs and budget. The next chapter presents our review of user perceptions.

VII. User Perceptions

VII. USER PERCEPTIONS

This chapter presents our review of user perceptions of the Department and the Division. Our review focused on identifying the impression of account managers relative to the effectiveness of the Department and Division, the basis and validity of any negative views, and suggestions for improvement. The information in this chapter is based on interviews with account managers, primarily within the Office of Supportive Services, and a written survey of account managers within the other offices of MCPS including school principals.

We conducted personal interviews with over fifty MCPS personnel. Approximately 18 of these personnel were either primary or secondary account managers. Among the personnel interviewed were the Directors of the Divisions of Insurance and Retirement, Payroll, Food Service, Transportation, Maintenance, Procurement, Warehouse, and Capital Budget and Construction. We also interviewed the Director of the Department of Budget Planning and Development, and the financial assistants to the Deputy Superintendent, and the Associate Superintendent for Special and Alternative Education. These individuals are responsible for overseeing the majority of MCPS expenditures.

In addition, a survey questionnaire was sent to twenty-nine other secondary account managers including other division or department directors, principals, and other individuals responsible for supported projects. A copy of this questionnaire is presented in Appendix VII-A at the end of this chapter. Fourteen questionnaires were returned.

The findings presented below are based on both the information gathered in the course of our interviews and the responses to the questionnaire. Several general observations can be derived from the interview and questionnaire results. Neither the interviews nor the survey response indicated any strong criticisms of the Division. A desire for more financial information was expressed in the interviews, which were primarily with individuals involved in non-educational activities of MCPS. There was no need for additional information based on the questionnaires, which were sent to individuals primarily involved in educational activities. All users indicated a lack of documentation for understanding the financial information system and its policies and procedures.

Contrary to this favorable view of the accounting system by users, our review indicated account managers do not receive adequate accounting information for effective and efficient management.

FINDINGS (User Perceptions)

Our review of user perceptions of the Department and Division resulted in findings in the following areas:

- Effectiveness of operations;
- Training;
- Account transfers;
- Timeliness and adequacy of financial information; and
- Documentation of the accounting system for account managers.

Our findings in each of these areas are presented below.

(1) The Department and Division are viewed as being effective by MCPS managers in achieving their objectives.

Generally, the account managers within the Office of Supportive Services stated that the Division was effective in supporting them given the limitations of the current accounting system. Similarily, most of the account managers in other

Offices responding to the survey rated the Division as good or excellent in providing them with needed financial information. Personnel in divisions that performed decentralized accounting and thus familiar with the current accounting system expressed an understanding of the limitation on the financial data and reports available to them.

(2) Account managers do not have adequate financial training.

Most account managers are by education and background, educators rather than financial managers. MCPS policies and procedures require these account managers to control the budget appropriations they are assigned. Account managers expressed a general lack of adequate financial skills and understanding of the Financial Information System.

(3) Account managers are not advised of transfers of projected surpluses from their account.

Some account managers indicated that appropriations were transferred out of their accounts without their knowledge. This occurred after they had projected a surplus in an account in their monthly projection report to the Department. These transfers undermine the account managers confidence in projecting the financial results of their operations.

(4) Account managers do not have sufficient time or information to produce their monthly projection reports.

Each primary account manager is required to produce and transmit to the Department a monthly report of the projected surplus or deficit in each of the accounts for which they are responsible. A significant number of account managers stated they had insufficient time to produce this report since the monthly reports from the Division arrived later than 3 working days after the close of the month. Further, they lacked the historical expenditure data that would aid them in making financial projections.

(5) Account managers perceive the monthly Statement of Transactions and Operating Budget report to be effective.

The majority of account managers contacted indicated these two reports contain sufficient information, are timely, clear and effectively aid them in making decisions and preparing results of operations and financial projections. It should be noted, however, that this tends to contradict results reported above.

(6) Account managers require additional accounting data, and many maintain their own manual "cuff" records.

Account managers indicated the need for data on the value of outstanding requisitions (commitments) and historical cost information including personnel costs. Many account managers maintain this data themselves since it is not provided by the Financial Information System.

(7) Account managers receive adequate support from the Division in resolving accounting problems.

Account managers perceive the Division as effective and responsive in resolving accounting problems and paying contractor invoices promptly and correctly.

(8) Account managers do not have adequate documentation to effectively understand accounting regulations and procedures as they affect their programs.

Accounting procedures are not documented effectively for use within the Division. Further, accounting procedures are not documented for use by account managers to understand effectively the financial data for evaluating their programs.

(9) Account managers require financial information to effectively control their programs, and indicated they receive adequate information from the Division.

Account managers stated the need for accounting data, and that the Financial Information System fulfilled their needs effectively.

RECOMMENDATIONS (User Perceptions)

Our review of each perception resulted in recommendations in the areas of training, transferring of funds, submission of monthly projection reports, replacement or modification of the existing system, and documentation of the system for account managers.

(1) Account managers, should receive training for effective financial management of their responsibilities.

Most account managers do not have a business background. Further, they are primarily responsible for, and interested in, the operation of their particular area or program. As a result they lack effective financial management skills and interest necessary for fiscal control of their responsibilities. New account managers, especially, need to receive training in the tools of financial management and an understanding of the Financial Information System.

(2) Account managers should be consulted prior to transfer of funds from their accounts.

Account managers should be consulted prior to transfer of funds from their accounts. Account managers should be notified of account transfers so they can effectively manage their programs and efficiently control their resources.

(3) Due dates for the submission of monthly projection reports should be extended when the monthly accounting reports are late.

Account managers should be given adequate time to develop accurate monthly projection reports. The due date for their projections should be a fixed number of days from receipt of the monthly accounting reports.

(4) The Financial Information System should be modified or replaced to meet the needs of account managers.

The comments received from account managers focused primarily on deficiencies in the Financial Information System. The statement of requirements developed as a by-product of this management study and submitted under separate cover presents the proposed financial requirements for a new MCPS accounting system. We recommend MCPS utilize this statement of requirements as a basis for either acquiring a new system or making modifications to the current system.

(5) Documentation of the accounting system should be developed to support account managers in financial management.

The Division should develop a manual to explain the accounting system to account managers and how account managers should utilize accounting and financial data.

* * * * *

This chapter presented our findings and recommendations related to user perceptions of the efficiency and effectiveness of the Department and Division. The next chapter presents our findings and recommendations with respect to the Financial Information System and data collection, retention and computer support of the Department and Division.

APPENDIX VII-A

Expiration May 1983

Department of Educational Accountability
Montgomery County Public Schools
Rockville, Maryland 20850

MORE Accounting Study
Account Manager Survey

Dear Account Manager:

Arthur Young, under contract to the Department of Educational Accountability, is conducting a Management Operations Review and Evaluation (MORE) study of the Montgomery County Public Schools accounting system. The opinions of account managers and the documentation of accounting practices are important aspects of the study. The results of the study will be available from the Department of Educational Accountability in June, 1983.

Please take a few minutes to respond to the following questionnaire. Your response will be confidential. Arthur Young will not release or discuss individual responses and will only provide MCPS with aggregate summaries of the responses.

Please send the completed questionnaire via the internal MCPS mail system (Pony) to:

Attention: Ken Fields
Arthur Young & Company
Department of Educational Accountability
Room 11 ESC

If you have any questions or comments relative to the study, please call Ken Fields at (202) 828-7000. Thank you in advance for your assistance with this study.

Harry Pitt

Approved: ______________________________
Dr. Harry Pitt, Deputy Superintendent of Schools

Please return by March 25, 1983.

MCPS 139-9922, 3/83

SURVEY OF ACCOUNT MANAGERS

MORE Accounting Study

What is your current position? (Check "✓" one)

Elementary School Principal ____
Middle or Intermediate or Junior High School Principal ____
High School Principal ____
Department Director ____
Division Director ____
Other (Specify:______________________________) ____

Please answer the following questions by placing a check "✓" in the appropriate column. Use the space provided to make additional comments or to explain or expand your answer. Use additional sheets if necessary.

	Yes	No
1. Do you receive a monthly Statement of Transactions report from the Division of Accounting?		
If yes:		
a. Does this report contain sufficient information?		
b. Is it received in a timely manner?		
c. Is it clear and understandable?		
d. Does it aid you in making projections and decisions?		
e. If applicable, does it support reporting to outside granting agencies?		
2. Do you receive a monthly Operating Budget Report from the Division of Accounting? If no, skip to question 3.		
a. Does it contain sufficient information?		
b. Is it received in a timely manner?		
c. Is it clear and understandable?		

	Yes	No
d. Does it aid you in making projections and decisions?	____	____
e. If applicable, does it support reporting to outside granting agencies?	____	____

3. For each other report you receive from the Division of Accounting, enter its name and answer questions a. through e. (i.e., the same questions are listed under 1 and 2 above.) If you do not receive any other reports, skip to question 4.

Report Name: ______________________________
Frequency: ______________________________

	Yes	No
a. Sufficient Information	____	____
b. Timely	____	____
c. Clear	____	____
d. Aid in Projection	____	____
e. Reporting	____	____

Use additional sheets as necessary.

	Yes	No
4. Is there additional accounting or financial information you would like to receive on a regular basis?	____	____

If yes, please indicate the type of information:

____
____
____
____
____

	Yes	No
5. Do you keep your own financial data?	____	____

If yes:

a. What additional data do you maintain?

____
____
____
____

	Yes	No
b. Do you reconcile you data with the reports from the Division of Accounting?	____	____
c. Have you ever discovered a discrepancy between your data and the reports from the Division of Accounting?	____	____
6. Are the personnel in The Division of Accounting accessible when you need information or help?	____	____
7. Do they provide assistance in resolving problems?	____	____
8. Are problems resolved quickly?	____	____
9. Does the amount of time needed for a response or assistance vary by time of year?	____	____
10. Have your vendors or contractors ever complained of slow or incorrect payments?	____	____
If yes, was the fault with The Division of Accounting or elsewhere?		
11. Do you understand the regulations and procedures used by The Division of Accounting in processing financial transactions affecting your accounts?	____	____
12. Do you have any material or other documentation on MCPS accounting procedures for transactions affecting your accounts?	____	____
a. If yes, do you use this documentation?	____	____
b. Is it clear and understandable?	____	____
c. Are you aware of any updates or changes?	____	____

Yes No

d. Do these procedures create any difficulties?

If yes, please give specific examples:

e. If applicable, are these procedures in conflict with the requirements of any outside granting agency?

13. Have you ever made any suggestions or requests for changes in the accounting procedures or regulations?

If yes:

a. To whom did you make the requests?

b. Were your requests acted upon?

14. Do you prepare or approve the following financial reports or forms:

Monthly Accounts Projections
Requisitions
Encumbrance Memorandum

Other (please list):

15. What do you anticipate will be your degree of need for financial information in the future? (Check "✓" one)

More than now
About the same
Less than now

16. Overall, how important is the information provided to you by the Division of Accounting in the performance of your duties.

Very Important	Important	Unimportant	Very Unimportant

17. Overall, how would you rate The Division of Accounting in providing you with the information you need.

Excellent	Good	Fair	Poor	Very Poor

18. Please make any other comments or suggestions you wish concerning the accounting and financial information systems.

VIII. Financial Information System and Data Collection, Retention, and Computer Support

VIII. FINANCIAL INFORMATION SYSTEM AND DATA COLLECTION, RETENTION AND COMPUTER SUPPORT

This chapter presents our findings and recommendations relative to the Division's automated Financial Information System, the Division's data retention policies and the level of data processing support to the Division. Our review of the Financial Information System included analysis of reports, the timeliness and adequacy of information, cost accounting, and the need for additional information. Our review of data collection, retention and computer support evaluated the nature of financial data, data retention practices and procedures, accounting forms, controls for data security, electronic data processing support and interfaces.

FINDINGS (Financial Information System)

This section presents our findings related to the Financial Information System and data collection, retention and computer support. Our findings cover the following subject areas:

- Limitations of the current Financial Information System;
- Cost Accounting;
- Lack of adequate financial information;
- Data retention procedures;
- Data security and intrusion; and
- Data Processing Support.

Each of these findings are discussed below.

(1) The automated Financial Information System does not provide timely data.

The automated Financial Information System is an outmoded batch system which possesses all the inefficiencies and delays inherent in such a system. The Monthly Operating Budget Report and the Statement of Transactions Report usually are received by account managers within 3-5 working days after the close of the month. However, due to varying cut-off dates for financial data, the report data may be as much as two weeks old when received by account managers. One effect of this delay in data is that many account managers must keep duplicate manual "cuff" records in order to monitor the accounts for which they are responsible. Effective financial decision making is difficult without up-to-date information. The extent of cuff records could be substantially reduced with an accounting system which meets the needs of the "Statement of Requirements" submitted under separate cover as part of this contract.

Further, more frequent reporting to account managers could be provided with a new system, including on-line inquiry. More frequent reporting under the current system probably would not be cost effective.

(2) The Financial Information System does not appear to provide MCPS managers with sufficient financial management information.

The management information provided by the automated Financial Information System does not provide managers with needed financial data:

- The Monthly Operating Budget Report and Statement of Transactions are accounting oriented, not management or user oriented;

- The Monthly Operating Budget Report contains no historical data, such as prior year expenditures which would be useful in preparing financial projections;

- The monthly Operating Budget Report and Statement of Transactions provides insufficient detail relative to payroll transactions;

- The system does not provide primary account managers with individual reports on supported projects for which they have overall responsibility;

- Secondary account managers must maintain parallel manual records on commitments (i.e. requisitions) purchase orders, encumbrances, and unencumbered balances in order to effectively manage their accounts. This is due to the inability of the system to track commitments as well as the lack of timely financial data; and

- The system carries only project-to-date expenditures for supported projects rather than both project-to-date and fiscal year-to-date totals.

(3) The Financial Information System does not provide cost accounting data effective for decision making.

Currently, MCPS does not utilize cost accounting to any significant extent. However, the chart of accounts within the automated system is being used to accumulate certain expenditures by a pseudo code cost center such as administrative area or school. Nevertheless, effective cost accounting is not being provided on buildings, equipment, unsupported projects or organizational and administrative units other than schools.

Overhead is not being charged completely on internal charge backs such as for maintenance and transportation.

Further, an indirect cost rate has been developed and is used for Food Service but it is not being used for supported projects due to a policy decision. Moreover, based on discussions with various MCPS personnel the allocations for overhead for transportation related to field trips is arbitrary.

Finally, the current payroll system does not provide a labor distribution capability which is a prerequisite for many types of cost accounting.

(4) The Financial Information System does not provide the necessary data to evaluate the financial performance of individual offices, departments, and divisions.

As noted in the previous finding, the Financial Information System does not provide the cost accounting capability necessary to evaluate the financial performance of many of MCPS's organizational units. The current system only provides information relative to an organizational unit's budget and expenditures which may or may not show how efficient it was in utilizing its financial resources. For example, school to school financial comparisons are not possible with the current system.

(5) The Financial Information System has several additional limitations.

In addition to the deficiencies mentioned previously, the current Financial Information System has many other user oriented limitations including:

- Prior year actual expenditures must be loaded manually to the Budget System due to a lack of automated support for both the budget and the current Financial Information System;

- No prior year historical financial data (i.e. prior year expenditures) is carried on the current system;

- Position accounting is not provided for supported projects;

- The current Fixed Assets System does not have the capability to calculate depreciation;

- The current system can only draw checks on one bank account;

- A large number of cash to accrual basis adjustments must be made manually;

- The system was not designed to handle partial payments or purchase orders or contracts. The processing of such partial payments requires signficant manual intervention;

- All required annual financial reports must be prepared manually. In addition, the data provided by the system requires extensive manual "manipulation" before these reports can be compiled;

- The system does not possess sufficient flexibility to meet the specialized or unique needs of MCPS. Any additional information requirements can be accommodated only by making program changes to the system which is an inefficient and time consuming process. The system does not possess a report writer capability therefore data manipulation is difficult; and

- The system is labor intensive to operate and maintain.

(6) Data retention procedures are adequate to meet the needs of MCPS.

The data retention procedures and practices utilized by the Division appear to be adequate and provide reasonable balance between hard copy and microfilm copy. The Division follows the records retention guidelines issued by the State of Maryland. Basically, hard copy source documents are retained until the applicable fiscal year audit has been completed. Subsequently, they are microfilmed and destroyed. The Operating Budget Report and the Detail Transactions Report are microfiched regularly for ease of referral due to their size. The Division utilizes both reader/printers for microfilm and a microfiche reader.

(7) The major accounting forms utilized by the Division are designed to facilitate efficient manual processing.

The major forms utilized in the Division are well designed given the nature of the Financial Information System with which they interface. The Purchase Order is designed especially well in that it is utilized as a requisition, purchase order and receiving report. The majority of the accounting forms utilized in the Division were designed especially to be used with the Financial Information System. Accordingly, their design was dictated to an extent by the data elements required by the system.

(8) Controls for data security and prevention of automated intrusion into financial records appear effective.

Data security for the Financial Information System appears effective based on our review of security in the following areas:

- Terminals - Terminal security for IDMS, CICS and ROSCOE applications appear effective. Assignment of passwords are made by two individuals. However, some people type their passwords and tape them to their terminals. This practice does not appear to occur for passwords to access financial data. Terminals in the schools are limited to accessing only 4 applications.

- Data set security - Tape security appears effective. However, given the skill and knowledge, a person could access any disk file which is not in IDMS. Data security packages have been requested for the past three years, but the budget request has been denied.

- Logging - The system does not log access to data file programs. Therefore, it is not possible to determine who accesses what files.

- Computer room - Physical security is excellent. Access to the computer room is limited effectively by use of credit cards and by class of person (i.e., day shift operator, etc.). The tape library is in a vault separate from the computer room. Finally, the computer room has smoke and heat detectors and a halon system.

- Back-up - Back-up for major master files are stored under lock and key at the Lincoln Center two miles from MCPS.

- Financial Information System - System security of this application appears adequate. Collusion would be required to illegally divert checks.

- Payroll application - System security for this application appears adequate. The beginning Payroll master file is compared against the ending payroll master file and significant deviations are flagged for daily review.

(9) Data processing enhancements to the FIS have not occurred due to a moratorium on maintenance changes for several years.

There have been no major enhancements to the FIS since 1977. However, operational support has been adequate. Management has decided to limit enhancements pending acquisition of a new system. Therefore, accounting has not submitted any requests to DMICS.

RECOMMENDATIONS (Financial Information System)

This section presents our recommendations relative to the above findings which cover the following subject areas:

- Financial Information System;
- Cost Accounting;
- Data security and intrusion; and
- Data Processing Support.

Each of these recommendations are presented below.

(1) The current Financial Information System should be replaced.

We endorse MCPS's current plans to acquire a new Financial Information System to replace the existing system. Our findings demonstrate that the current system is outmoded, inefficient, labor intensive and does not meet the financial management needs of MCPS. It is a major contributor to most of the findings in this study.

As mentioned on page 3 of the Executive Summary, the more significant priorities for enhancements to the FIS appear to be a capability for internal and external reporting, cash to accrual basis conversion, partial payment processing, and on-line data entry in the Division. While the current FIS system appears more expensive to enhance than replace, even these limited enhancements should only be considered if the current system is not replaced within the next two years. Further, a life cycle cost analysis of these enhancements should be performed before proceeding with these enhancements.

(2) MCPS should acquire a cost accounting system.

In order to provide MCPS management with sufficient financial information to evaluate the performance of individual offices, departments and divisions, we recommend the replacement Financial Information System possess a cost accounting capability.

(3) Several actions should be taken to improve data security and minimize the opportunity for system intrusion.

We recommend the following actions to improve data security and to minimize the opportunity for system intrusion:

- Terminals - Personnel should not tape their passwords to terminals.

- Data Set Security - A data security package should be acquired to restrict access to data.

- Logging - The CICS and IDMS journal tapes should be reviewed periodically for security purposes by DMICS personnel.

- Backup - The backup tapes at the Lincoln Center should be inventoried by DMICS personnel to check that the correct files are, in fact, on site.

To provide effective and efficient internal control, logging and backup procedures should be performed by DMICS.

(4) The level of data processing support to the Division should be increased.

A realistic evaluation should be made as to when a new Financial Information System will be installed. If it appears that the system will not be implemented within a reasonable period of time (i.e. less than two years) then we recommend that the current system be reviewed to see what short-term improvements could be made by DMICS personnel. This would allow for a more immediate improvement in processing efficiency and labor savings.

* * * * *

This chapter presented our findings and recommendations related to the Financial Information System and data collection, retention and computer support. The next chapter presents our review of asset management.

IX. Asset Management

IX. ASSET MANAGEMENT

This chapter presents our review of asset management within MCPS. Our review of asset management included the five areas of:

- Cash management;
- Investment and trust accounts;
- General fixed assets;
- Inventory accounting; and
- Risk management.

Within each of these areas we reviewed the goals, objectives and responsibilities of each of these programs. In addition, we reviewed the efficiency and effectiveness of operations in these areas. Specific areas of emphasis within each of these asset management areas are stated in our discussion of the findings and recommendations for each area.

CASH MANAGEMENT

Our review of cash management practices within MCPS included an evaluation of the County/MCPS cash disbursement arrangement and the program for collection of receivables.

FINDINGS (Cash Management)

Our review of cash management resulted in findings in the following four areas:

- County responsibility for investment of cash;
- Role of accounts receivable and accounts payable in cash management;

- Collection of delinquent receivables; and

- Management of food service cash receipts.

Each finding is presented below:

(1) MCPS has limited responsibility for the investment of cash.

Most MCPS revenues come through the County. The major exception is revenue generated through the sale of food. The current practice is for the County to invest all funds and to disburse daily to MCPS only enough cash to cover MCPS checks presented for payment. The benefits of maximizing the return on idle cash accrues to the County.

(2) The accounts payable and receivable functions do not support effective and efficient cash management.

Currently, the primary objective of accounts payable is to take all available vendor discounts. This practice often results in disbursement of cash before the due date of the invoice. This payment procedure increases the needed drawdown from the County, reducing the funds available for investment. Similarly, invoices for accounts receivable are mailed by MCPS once a month. This billing procedure reduces the cash flow to MCPS and similarly reduces the cash available for investment.

(3) There is no effective program for the collection of delinquent receivables.

An accounts receivable aging report is generated by MCPS. It is not utilized effectively and is inaccurate. Follow-up on delinquent accounts is done on an irregular basis by the accounts receivable clerk and the secretary to the Director.

In addition, effective policies and procedures do not exist to write off uncollectibles.

(4) Cash receipts of food service are not managed separately from the general fund.

Cash receipts generated from the various food service operations are consolidated once a month. Until recently, these idle funds were not invested. As of May 1, they are deposited daily in interest bearing accounts. The current policy of depositing and disbursing food service cash in the general fund and creating interfund receivables and payables does support effective cash management, and reduce the drawdown of cash from the County. However, this practice may distort the results of operation of food services as an enterprise fund and may represent an indirect subsidy since potential food service interest earnings are not credited to the fund.

RECOMMENDATIONS (Cash Management)

Our recommendations with regard to cash management are as follows.

(1) MCPS should establish procedures with the County to provide explicit benefits to MCPS for effective cash management.

From the perspective of MCPS, it is advantageous to take all available vendor discounts for early payment because this reduces budgeted expenditures. MCPS should continue this policy, but should not make vendor payments earlier than the due date. MCPS should continually monitor the rate of return on investments as compared to available vendor discounts. Should this comparison indicate that it is advantageous to delay payment, then MCPS, in conjunction with the County, should consider foregoing discounts. Normally vendors use discounts as penalties to expedite payment, such that failure to take the discount results in an effective cost of money of 18-36%.

Similarly, MCPS should consider the cost effectiveness of twice monthly invoicing. This would serve to increase cash flow to MCPS and the County.

(2) Policies and procedures for the effective and efficient collection of delinquent account receivables should be established.

The absence of effective policies and procedures for delinquent account receivables results in the slow collection of funds due to MCPS. Effective cash collection procedures may also serve as a deterrent to delinquent customers.

(3) The policy of crediting food service cash to the general fund should be reviewed.

The separation of food service cash management from the general fund could generate additional income for the food service fund. However, additional costs could arise. The potential benefits and impacts of such a separation should be analyzed to determine if it would benefit MCPS.

INVESTMENT AND TRUST ACCOUNT MANAGEMENT

Currently, there are two types of funds for which MCPS has a fiduciary relationship. One is the Independent Activity Funds (IAF) of each school. The IAF's are consolidated and reported under the trust and agency category in the annual financial reports. The other is the Pension Trust Fund which is also reported in the trust and agency category. In addition, MCPS contributes to an Employee Benefit Plan Trust. This trust is maintained by an independent trustee for which MCPS has no contingent liability. Therefore it is not included as part of the MCPS reporting entity.

FINDINGS (Investment and Trust Account Management)

In the investment and trust account area, our review has resulted in findings with respect to the responsibility for the IAF accounts and to the overseeing of outside trust account managers.

(1) Responsibility for the Independent Activity Funds and their investment is unclear.

The Independent Activity Funds represent receipts generated within each school. These receipts are considered agency funds, not belonging to the Board of Education. The accounting and control of these funds is the responsibility of each school, although they are audited by MCPS. Currently there is a voluntary centralized investment fund which provides cash balance investment services to ninety (90) of the schools which have chosen to make use of it. This fund primarily utilizes the County's services to manage the cash investments with some cash kept in interest earning bank accounts to cover daily disbursements to the member schools. The program is managed by an MCPS employee who receives a supplemental payment from the fund for doing the bookkeeping during non-work hours, although receipts and disbursements are handled during the work day and use MCPS facilities (telephone and Pony mail). The Division has no responsibility for controlling or accounting for the IAF's except to report them as agency funds in the annual report and to reimburse them from budget appropriations for certain expenditures. Similarly, there has been, as yet, no audit performed of the central cash investment fund.

Since the bulk of the centralized investment fund's cash is managed by the County, it earns approximately the same return as MCPS (or the County) does. However, since participation in the fund is voluntary for the schools and MCPS has taken the position that these are agency funds (and therefore not belonging to MCPS) there may be significant amounts of IAF cash in the non-participating schools that are not earning the maximum return.

(2) Responsibility for overseeing the performance of outside investment managers is assigned properly to the Director of the Department.

The Pension Trust Fund and Employee Benefit Trust Fund are both managed by outside managers who provide periodic reports to the Director of Financial Services. The Division is responsible for remitting the monthly deposit to the pension manager and for accounting for the retirement systems including the adjustments for people buying in, cashing out and for refunds, voided checks, etc. The Division is also responsible for the accounting of the Employee Benefit Trust. This is slightly more involved than the pension situation as the Division determines the daily cash deposit necessary to cover insurance claim checks issued, and does a projection of income and claims used in setting rates.

The Director of the Department of Financial Services is responsible for reviewing the investment policy of these outside managers and the return on investment.

RECOMMENDATIONS (Investment and Trust Account Management)

As a result of our review, we recommend that the status of the IAF fund be clarified and that responsibility for the trust fund managers be assigned.

(1) The status of the Independent Activity Funds and their investment should be clarified.

The actual ownership of the IAF's should be established and centralized cash management be made mandatory. Whether or not these funds are truly the responsibility of MCPS, they should be under its control, and managed by whoever is given responsibility for overseeing the cash management of MCPS funds.

(2) Accounting personnel who interact with the outside trust account managers should be informed of their performance.

The performance of the outside trust account managers is reviewed on a regular basis. However, the accounting personnel who regularly interacted with these outside managers were not aware of what their current rates of return were.

GENERAL FIXED ASSET ACCOUNTS

In general, the fixed asset group of accounts appear to be handled in an efficient and effective manner. There are two issues that arose during this review relative to the closing of capital projects and updating fixed inventory.

FINDINGS (General Fixed Asset Accounts)

Our review indicated duplicate manual effort in closing capital projects (for MCPS and for the state), and in updating the fixed asset inventory.

(1) The proper classification of completed capital projects that are in use but not "closed" is not clear.

Certain capital projects are completed to the point where the facility is in use, but which have not been considered "closed" or are still considered work-in-progress due to unfinished items or lack of a final audit by the state. Such projects must now be manually tracked for inclusion in the fixed asset group of accounts for reporting purposes since they are considered complete under accounting standards, once they are in use, although they may be open under State and MCPS standards.

(2) The updating of the furniture and equipment inventory is not timely.

The Division produces a monthly listing of purchases which may be classified as fixed assets based on object of expenditure and dollar amount (currently $75). These purchases are researched and if identified as in fact being fixed assets, a list is transmitted to the Division of Supply and Property Management for inclusion in the furniture and equipment inventory. This process takes an excessive amount of time and may result in the furniture and equipment inventory being as much as two months behind actual acquisition of an asset.

RECOMMENDATIONS (General Fixed Asset Accounts)

We recommend the handling of fixed assets be improved by eliminating certain manual transactions for capital projects, and updating the furniture and equipment inventory in a more timely manner.

(1) The recording of fixed assets from work-in-progress should be automated.

Projects are recorded as fixed assets in the books of MCPS when placed in service. For state reporting purposes, this entry must be made a second time when the state audit has been completed. We recommend the recording of work-in-progress to fixed assets be automated to eliminate this duplicate manual effort.

(2) Additions to the furniture and equipment inventory should be transmitted in a more timely manner.

The generation of the list of potential additions to the furniture and equipment inventory should be done more often, preferably on a weekly basis. Updating on a weekly basis should tend to smooth this workload and not cause any additional workload. Further, this should facilitate a more timely transfer of information to the Division of Supply and Property Management and a more current inventory.

INVENTORY ACCOUNTING

During the course of our review the following inventory systems were identified:

- School Lunch Inventory Control System (SLICS);
- Furniture and Equipment;
- Warehouse; and
- Transportation.

Each of these automated systems were developed in-house by MCPS personnel and interface with the Financial Information System.

FINDINGS (Inventory Accounting)

We observed that inventory accounting is decentralized and that most departments use an average cost system.

(1) Inventory accounting is decentralized with each department responsible for the operation of its own system.

The Division of Food Service operates the School Lunch Inventory Control System; the Division of Supply and Property Management operates the Warehouse and Furniture and Equipment inventories; and the Division of Transportation operates the Transportation parts inventory. The Division has assumed some responsibility for overseeing physical inventory and reconciliation of perpetual and physical inventory data.

(2) The inventories use an average cost system except for Transportation parts.

The Transportation parts inventory operates on a first-in-first-out costing basis. The other three operate on an average cost basis.

RECOMMENDATIONS (Inventory Accounting)

The inventory management area could be improved by clarifying responsibility for inventory reconciliation and enhancing the automated inventory systems.

(1) The present decentralized inventory accounting scheme should be maintained.

The present decentralized inventory accounting scheme provides the respective agencies effective and efficient control of physical inventories. Further, the present decentralized scheme provides the Division with reliable inventory cost data. Therefore, we recommend the present decentralized inventory accounting scheme be maintained.

(2) The older inventory systems should be enhanced.

While the systems operate satisfactorily and provide the necessary data, they could be updated to provide additional features such as automatic purchase order generation when the economic order point is reached. Similarly, the manual interfaces with accounting could be automated.

RISK MANAGEMENT

In general, risk management is overseen by the Division of Insurance and Retirement. MCPS makes use of the self insurance pool operated by the County for its workers' compensation, automative liability and fire insurance coverage. It also maintains a variety of miscellaneous insurance coverages for such liabilities as athletic injuries, and employee bonds.

FINDINGS (Risk Management)

Our review of risk management resulted in findings in two areas:

- The location of the risk management function; and
- The role of other divisions within the Department of Finance

Each finding is presented below.

(1) The location of the risk management function within the Division of Insurance and Retirement appears logical.

The Division of Insurance and Retirement has responsibility for administering all of the MCPS insurance coverages. It would appear logical that this responsibility for insurance would also encompass the broader function of risk management with its implications for monitoring employee safety, especially in the Workers Compensation and automotive areas.

(2) The role of the other divisions of the Department of Financial Services in Risk Management is very limited.

The roles of the Division of Accounting and Payroll in the risk management function appear to be limited to passing certain needed information to the Division of Insurance and Retirement. This information is used to establish amounts and coverage for such items as workers compensation or fire insurance. They appear to perform these roles effectively.

RECOMMENDATIONS

Due to the limited review of the Division of Retirement and Insurance based on the scope of this study, our review of the risk management program was limited. Therefore, we make no recommendations in this area.

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This chapter presented our findings and recommendations related to asset management. The next chapter presents our review of additional accounting issues.

X. Additional Accounting Issues

X. ADDITIONAL ACCOUNTING ISSUES

This chapter presents the findings and recommendations of our review of several additional accounting issues involving the Division. Our review of additional accounting issues included the study areas of bad debts policy, operation of the Food Services fund, current encumbrance accounting practices, interfaces between budget development and the Division, accounting cycles, and the relationship of the findings and recommendations of this study with other MORE studies. Some of these issues were addressed to a limited degree in previous chapters. Each issue is presented separately in this chapter.

FINDINGS (Additional Accounting Issues)

Our review of additional accounting issues resulted in findings in the following areas.

- Bad Debts;
- Food Service Accounting;
- Encumbrance Accounting;
- Budgeting/Accounting Interfaces;
- Accounting Cycles; and
- Other MORE studies.

Our findings in each of these areas are presented below.

(1) The procedures for writing-off of bad debts appears inadequate.

This issue was discussed previously in association with the accounts receivable function in Chapter III, Accounting

Principles, Policies, and Procedures. There is no reserve account for uncollectible receivables.

(2) Accounting for the Food Service fund as an enterprise fund on a full accrual basis appears appropriate.

In accordance with the full accrual treatment of an enterprise fund, the Food Service fund includes depreciation as an element of expense. In addition a charge for certain indirect costs incurred by other funds in support of food service is made based on a state determined formula. Thus, it appears the full costs of the food service operation are included in the financial statements. Some of the school systems reviewed for comparison account for food service as a special revenue fund on a modified accrual basis. However, there appears to be no significant advantage to this method of treatment. In fact, the elimination of depreciation as a cost item within the special revenue fund would increase the degree of subsidization of this activity from the general revenues of MCPS.

(3) The current encumbrance accounting system does not process partial liquidations and partial payments efficiently.

The current automated Financial Information System processes a partial payment on an encumbered contract by liquidating the encumbrance and then reencumbering the remaining balance.

(4) Not all contracts are encumbered.

The Division may not be aware of a contract until an invoice is presented for payment. Futhermore, some invoices are processed without a contract ever being recorded in the Division.

(5) The Financial Information System does not provide data to the budget system on an automated basis.

The budget system provides the Financial Information System with the new listing of operating expenditure accounts and new budget appropriations via an automated process. However, the Financial Information System cannot provide the budget preparation system with historical data on actual expenditures for prior years through an automated interface.

(6) Improved coordination is needed among the Department of Budget Planning and Development, the Division and the Division of Payroll in the closing and opening of supported projects.

When a supported project is closed at year-end, the associated account number is terminated. When a new supported project is begun, a new account number is assigned. The payroll system does not require a valid account number in order to process an employee's pay check. When a supported project is closed at year-end, and the personnel paid from it are to be carried on a new project, they have been paid from the account of the previous year. These transactions must later be reversed to the proper new accounts. This results in additional work for the Division of Payroll and the Division.

(7) The current accounting cycles are defined clearly, but overlap.

The Financial Information System currently operates on a monthly interim reporting cycle and a fiscal year cycle of July 1 to June 30. This concides with the traditional school year (September to June). In addition, this cycle allows for the summer months to close the current year and open the next. During these months transaction volume is lowest since the schools and cafeterias are closed. However, orders for the new year must be placed as early as May 15 so that textbooks and materials are delivered by the opening of schools. Therefore, transactions for both the current fiscal year and the next fiscal year should be processed between May 15 and June 30.

(8) There is no capability to provide multiple year reporting for supported projects.

Expenditure data for supported projects are carried forward from one fiscal year to the next in order to provide project to date history. This is done to facilitate project reporting to the state and federal granting agencies. There is no capability to segregate current fiscal year, or project year spending from prior years.

(9) Several recommendations in other MORE studies impacting the Division have not been implemented.

Several recommendations in other MORE studies have a direct impact on the Division, either reducing workload and improving efficiency, or improving controls. For example, the MORE study of the Division of Procurement recommended the encumbrance of funds be eliminated for minor purchases (i.e., less than $100). This study also recommended the need for improved controls over expenditures for contractual services. However, it does not appear these recommendations have been implemented. The elimination of the encumbrance of purchases of less than $100 should result in a reduced workload in accounting. However, the increased control over expenditures for contractual services should result in an increased workload. Implementation of these two recommendations should have no net effect on the workload in accounting.

Further, the MORE payroll study suggested combining the Divisions of Payroll and Accounting, and the MORE supply management study suggested merging the Division of Procurement into the Department of Financial Services. Our review of the Division of Payroll indicated that the responsibilities and activities of accounting are significantly different from those of payroll. In addition, we could not identify any increased efficiency or effectiveness from combining the Division of Accounting and Payroll. Finally, these two divisions appear to operate effectively and efficiently by both reporting separately to the Department of Financial Services.

Our detailed review of the Department and Division and our general review of the Division of Procurement did not indicate any basis for merging Procurement into the Department of Financial Services. On the contrary, our review indicated a significant deterioration in the integrity of accounting from such a merger, and no apparent opportunity for increased efficiency and effectiveness. The primary responsibility of accounting is the maintenance of the official financial records of MCPS, whereas the primary responsibility of procurement is to obtain goods and services for MCPS at least cost. Proper segregation of duties between these two organizational units is necessary to maintain adequate internal control, and thus integrity of accounting data. First, accounting provides a check on procurement in certifying the availability of funds. Combining these two divisions could undermine the proper segregation of the duties of procurement in obtaining bids and generating procurement instruments and of accounting in certifying the availability of funds for the procurement. Second, accounting is responsible for checking that procurement instruments are properly authorized and within appropriate dollar limits, checking vendor invoices against purchase orders (or contracts, etc.) and receiving reports in order to schedule payment, and writing the check for payment. These steps should be performed independently from procurement in order to maintain the integrity of accounting. Finally, we could not identify any increased efficiency or effectiveness in the

Department resulting from the merger of procurement.

RECOMMENDATIONS (Additional Accounting Issues)

The following recommendations address the findings in each of the additional accounting areas covered in this chapter.

(1) A reserve account for uncollectible receivables should be established.

While outstanding receivables are reviewed regularly, MCPS should establish an account for uncollectible receivables. Receivables should be reviewed regularly to estimate the amount uncollectible and a reserve for the amount established.

(2) It is recommended that the full accrual accounting treatment of Food Service remain unchanged.

Treatment of food service as an enterprise fund results in the matching of revenues and expenses fully. Thus, the degree to which this activity is self-supporting or subsidized can be effectively identified.

(3) An automated capability should be provided for the processing of partial payments against contracts.

The processing of partial payments against contracts should be automated either through modification of the existing Financial Information System or with a new accounting system. The present manual process is very cumbersome, and this type of processing is best accomplished through automation.

(4) Copies of all contracts should be forwarded to the Division for their records and for encumbering.

A policy should be established to require a copy of all contracts be forwarded to the Division from the Division of Procurement. This policy would provide the Division the ability to encumber funds for all contracts, and provide better control over MCPS funds.

(5) The Financial Information System should be modified to automatically transfer accounting data to the Department of Budget Planning and Development.

Automated transfer of accounting data to the Department of Budget Planning and Development could eliminate the inefficiencies of manually transferring this data. Automated transfer would also provide the basis for an expenditure history for account managers for use in making current year expenditure projections.

(6) A procedure should be developed to assign user account numbers to personnel on supported projects as they are closed.

Effective assignment of new account numbers to supported projects at fiscal year-end would eliminate the inefficiency of correcting erroneous charges to old account numbers.

(7) The current accounting cycles should be continued but a multi-year capability should be developed.

The current accounting cycles support effective and efficient management of the workload of the Division. However, the current "early ordering" process requires that the daily accounting update be run twice, once for the current fiscal year and once for the upcoming fiscal year.

(8) The Financial Information System should have the capability to report supported projects on both a fiscal year and project year basis.

In order to report the current fiscal year spending for supported projects, it is necessary to isolate manually the data from the Financial Information System. The system should have the capability to record project expenditures on both fiscal year and project year basis to eliminate this manual process.

(9) The Division should adopt those recommendations in other MORE studies which would improve effectiveness and efficiency.

We recommend the Division eliminate the encumbrance of funds for minor purchases and improve the controls over expenditures for contractual services.

We recommend the Divisions of Accounting and Payroll not be combined, and that the Division of Procurement not be combined with the Department of Financial Services.

The Division should formulate a plan and establish procedures to implement, as appropriate, recommendations directed to the Division as a result of other MORE studies.

* * * * *

This chapter concludes our report on the review of the MCPS accounting system and certain related financial services functions. The next, and final, chapter of this report presents our implementation considerations.

XI. Implementation Considerations

XI. IMPLEMENTATION CONSIDERATIONS

This chapter provides information and analysis to MCPS as a result of the management study of the accounting system for implementing our recommendations. This chapter presents a description of a generic implementation plan for acquiring a new accounting system, an estimate of personnel savings resulting from a new accounting system, a proposed organization for the Department and Division, and categorization of all the recommendations resulting from the study.

GENERIC IMPLEMENTATION PLAN

This section presents a generic implementation plan for the installation of a financial information system software package. It includes the tasks and major subtasks that we recommend for conversion to a new system. For each task, we have also identified the MCPS division or individual who should have primary responsibility for completing that task. Also, the vendor's level of involvement would necessarily depend upon the vendor chosen and the terms of their contract. This work plan should be revised and finalized with the chosen vendor.

Task 1 - Project Initiation, Planning, and Control

The purpose of this initial task is to review project planning and coordination requirements, to prepare a detailed work plan and to provide the critical project management functions necessary for success. This task should consist of the following:

1.1 Prepare Detailed Work Plan

A detailed work plan to govern subsequent project activity should be prepared in conjunction with the chosen vendor. This work plan should specify tasks and subtasks which can be completed in 40 hours or less. This technique will enable MCPS to better manage the project.

1.2 Review and Monitor Project Activities

In this subtask, the project director should review and monitor both vendor, DMICS and Division of Accounting activities to identify problem areas and recommend solutions; to define additional or modified task activities; and to promote timely and satisfactory completion of tasks.

1.3 Conduct Monthly Review Meetings

The MCPS project managers should submit monthly progress reports to the project director consisting of a brief narrative describing what has been accomplished and the products delivered during the prior month, what is to be accomplished during the upcoming month, and the percentage of overall project completion.

1.4 Prepare Issue Discussion Statements

Throughout the project certain issues will come to the project team's attention which will require clarification and/or procedural decisions. Instead of waiting to present the issues at a meeting or in a report, the facts should be forwarded to the appropriate MCPS project manager via a discussion statement. The contents of this discussion statement should describe the issue, analyse the alternatives and recommend an approach.

Task Responsibilities

We recommend the Director of the Department of Financial Services be appointed Project Director. The Department's

Financial Systems Analyst should be Project Manager for user related tasks and the Director of the Department of Mangement Information and Computer Services (DMICS) should be Project Manager for system conversion activities. Both individuals should report to the Project Director.

Task 2 - Review Existing Accounting Procedures

The objective of this task is to define and then review the existing accounting procedures which should be included in the new Accounting Procedures Manual. The purpose of this review is to:

- Develop an understanding of the current system
- Evaluate system controls
- Evaluate procedures and input forms for efficiency
- Define internal and external reporting requirements.

2.1 Define Accounting Areas for Manual Inclusion

The initial step of this task is to define which accounting areas should be included in the manual. During this sub-task, the organization and presentation style of the manual should be defined. The manual should contain sections which address policy as well as procedures with specific instructions for forms processing and control.

2.2 Conduct System Walk-Through

MCPS should conduct walk-throughs of the various manual accounting sub-systems. During this step you should review procedures, gather input forms, accounting instructions/memos, and output reports. Interviews should be conducted to verify processing steps, control points and report information requirements. During these reviews, you should pay particular attention to the evaluation of controls and the opportunities for system improvements.

After the walk-throughs manual input forms and output reports should be analyzed and cataloged.

Task Responsibilities

The Financial Systems Analyst and the Director of Accounting should be responsible for this task.

Task 3 - Review Vendor Software

The objectives of this task are to gain an understanding of the software package and to evaluate system controls.

3.1 Establish Coordination Point With Vendor

During this subtask, a representative of the vendor should be identified to serve as the major contact for documentation, system information and resolution of technical questions.

3.2 Review Vendor Documentation

MCPS should review system, programmer and user documentation for the vendor's package. This review will provide information on system operation, processing approaches, input and output formats, methodologies and system constraints.

3.3 Review Software Controls and Security

During this subtask, the control and security aspects of the vendor's package should be analyzed. The output of this subtask will be used during Task 3 to define an appropriate balance between automated controls and user dependent control procedures.

Task Responsibilities

The Director of DMICS and the Financial Systems Analyst should be responsible jointly for this task.

Task 4 - Recommend New Procedures

Based on the work conducted in the two previous tasks, MCPS should develop recommendations for new and streamlined procedures. For each accounting area, the following subtasks should be performed.

4.1 Identify System Improvements

MCPS should identify improvements which can be made in capturing accounting information, in eliminating duplication of work efforts, or in capturing redundant or non-relevant data. Many of these improvements may be reflected in modified input forms.

4.2 Develop System Controls Recommendations

Recommendations should also be made on system controls. As mentioned before, the objective will be to balance manual controls with available automated controls. Such a balance should result in an efficient and effective control system.

4.3 Develop Reporting Recommendations

Recommendations should be made on the specific content of the system output reports. Information requirements should be defined for managerial accounting and for accounting and financial reporting to external sources.

Task Responsibilities

The Financial Systems Analyst in conjunction with the Director of Accounting should be responsible for this task.

Task 5 - Design and Order Forms

The objective of this task is to redesign existing MCPS forms for use with the new software package as well as to design any required new forms. The vendor should be able to provide sample forms to aid in the design process. These new and revised forms should be designed and ordered in sufficient time to allow for their use in training sessions and inclusion in the accounting manual.

Task Responsibilities

The Financial Systems Analyst, the Director of Accounting and DEA should participate in this task.

Task 6 - Draft Accounting Manual

The objective of Task 6 should be to prepare a standardized Accounting Procedures Manual for all accounting processes reflecting the new procedures, controls, input forms and output reports.

6.1 Finalize Manual Organization

Final agreement should be reached on manual format, section content and style. These decisions will be based on the discussions held under Task 2.1 and the review of accounting manuals from other school districts or locations.

6.2 Draft Accounting Sections

Accounting policies and procedures reflecting the recommendations developed in Task 4 will be written for each accounting area and submitted to the project director and selected user personnel for review and approval.

6.3 Finalize Accounting Manual

Based on the reviews conducted in Task 6.2, the Accounting Procedures Manual should be finalized.

Task Responsibilities

The Financial Systems Analyst should be responsible for this task.

Task 7 - Conduct User Training

The training of users is an important task and is necessary so that users understand the procedures, controls, forms and reports which were defined in the accounting manual.

It should be noted that a good procedures manual written in playscript style serves as an excellent training tool.

7.1 Prepare Training Plan

A detailed training plan and schedule should be developed and should identify users and other personnel to be trained, the training procedures to be used, and specific training assignments.

7.2 Prepare Training Presentations Material

A system overview presentation for management and a detailed system description should be prepared during this task. The personnel to be trained should be identified by the user departments.

7.3 Present Training Sessions

Training presentations will be conducted for mangement groups and users. The supervisors should be responsible for training their staff.

Task Responsibilities

The Financial Systems Analyst and the Director of Accounting should be responsible for this task. The vendor should also be involved in the presentation and development of the training materials.

Task 8 - Software Acceptanct Test

The purpose of this task is to test the new system software. This task should consist of the following subtasks.

8.1 Load Necessary Balances

Fund balances and appropriation amounts (test) should be loaded for the funds and organizational units selected for the test.

8.2 Run First Cycle Acceptance Test

The developed test (and "live") data will be entered into the system. A normal daily and monthly cycle of the application executed and the appropriate reports produced.

8.3 Review Test Results

The results of the First Cycle Acceptance Test are compared to the expected results, and differences or unexpected results should be researched and the proper modifications made and the test rerun.

8.4 Modify Data for Second Cycle

The test data for the first cycle should be changed in order to execute a second cycle acceptance test.

8.5 Develop Expected Results for Second Cycle

The results expected from the second cycle test should be developed and documented. Included in these expected results should be the expected changes in the general ledger file from cycle to cycle.

8.6 Execute Second Cycle Test

The second cycle test data should be run as a normal run and as a month end close.

8.7 Review Second Cycle Test

The results from the second cycle including cycle to cycle controls will be compared to the expected results. Differences and unexpected results or ommissions should be resolved and the test rerun as necessary.

Task Responsibilities

This task should be the primary responsibility of the Director of Accounting and the Financial Systems Analyst with strong support from the vendor and DMICS.

Task 9 - Final Conversion

The purpose of this task is to prepare the data base of the automated system for actual start-up.

9.1 Re-Initialize Files

The files which have been updated during the testing phases should be initialized to a null or zero condition.

9.2 Load Budget Data

The budget data should be reformatted and loaded into the vendor's system. Included within this sub-task are the necessary steps to put in place the controls to reconcile the converted file back to the original source.

9.3 Load Open Purchase Orders and Vouchers

Depending upon the decision made during previous tasks, the open purchase orders and vouchers should be input into the system.

9.4 Load Fund Balances and Cash Balances

Initial balances should be established. Procedures for reconciling and adjusting these balances after the final close should also be implemented.

9.5 Load Open Receivables

Open receivables should be loaded into the system during this task.

9.6 Develop Detail Schedule

Final detail startup schedule, including operations, use of new forms and procedures should be developed, approved and disseminated to appropriate personnel.

Task Responsibilities

This task should be the primary responsibility of DMICS and vendor personnel with the cooperation of the Department of Financial Services personnel.

Task 10 - Start-up

This task marks the actual start-up of the new system.

10.1 Establish EDP Procedures

Detailed operating control procedures should be developed for the data processing operations section. These procedures will include:

- Processing schedules
- Back-up schedule
- File retention.

10.2 Establish Controls for Dual Systems

Controls and procedures within the accounting section should be developed and instituted to facilitate new year processing in the new automated system concurrent with manual processing for prior year activity.

10.3 Start-up

Begin actual use of new system.

Task Responsibilities

This task should be the primary responsibility of DMICS with input from the Division of Accounting.

We strongly recommend that this project begin at least 6 months before implementation. Practically, this means that the project must begin no later than January 1st for a July 1st implementation.

We also recommend that the entire system be implemented at one-time with the exception of fixed assets which might need to be postponed depending upon the condition of MCPS's fixed asset records and the nature of the vendors fixed asset package.

PERSONNEL SAVINGS

Our review of the MCPS accounting system indicated an effective and efficient operation given the present Financial Information System utilized by the Division. However, we do strongly recommend the acquisition of a new accounting system by MCPS.

Although it was not a part of our detailed analysis, our review indicates probable significant savings in the Division if a new accounting system were acquired. Actual savings estimates should be based on a detailed life-cycle costing (the cost over the useful life discounted to present value) analysis conducted as part of the MCPS decision making process. This life-cycle cost analysis should consider incremental costs (costs associated with the acquisition of new resources) and allocation costs (costs associated with the use of existing resources) for both the existing system and the proposed new system. Elements of cost to consider include software, hardware, and personnel both within and outside the Department.

Our initial estimates of probable personnel savings are based on MCPS installing a new automated system capable of meeting the needs of the "Requirements Statement" submitted to you under separate cover on May 17, 1983 as part of this contract. The estimated savings are based on the full implementation, at one time, of the system requirements stated above without variation. Further, the estimated personnel reductions cannot be made until the new system is acquired, installed, and acceptance tested. MCPS, in responding to inquiries on the FY 1984 budget, estimated that up to six positions in accounting and DMICS could be released on a phased in basis, as the new accounting system was implemented. In addition, four new positions would not be required to meet new demands in the financial area. Some of the features of a new system considered in our estimate of probable personnel savings include:

- On-line data entry and editing
- Encumbrance accounting
- Accounts payable
- Accounts receivable
- General ledger
- GAAP reporting
- Short-form coding
- Grant accounting

- Purchase order generation
- Fixed asset accounting
- Cost accounting
- Report writer capability, and
- Accruals.

Our estimate of probable net personnel savings by section in the Division of Accounting are as follows:

- General accounting - 1 position - This savings is estimated based on an anticipated significant reduction of manual reporting to external agencies and a reduction in the manual adjustments necessary with the present system.
- Accounts payable - 1 position - This savings is estimated based upon the anticipated elimination of the manual process of physically matching the pending pay cards, vendor invoice and purchase order, batching them and submitting the pending pay card for processing. The new system should provide for on-line data entry to eliminate the above process.
- Input/Output control - 1 1/2 positions - This estimate of personnel savings is based on the efficiency of on-line data entry over batch processing. Further, savings are anticipated from the reduction of effort to correct data entry errors.

DEPARTMENT AND DIVISION ORGANIZATION

Our review indicated the Department and Division to be effectively and efficiently organized given the current accounting system. Our review demonstrated that both the number and type of staff were appropriate. However, a new accounting system should result in the reduction of the number of personnel in the Division as stated above. The types of personnel currently employed appear sufficiently qualified to work with a new accounting system. A consideration in hiring new personnel in the future should be their experience in working with automated accounting systems as well as being involved in the implementation of an automated accounting system.

The present degree of centralization appears effective for MCPS. We recommend maintaining the same degree of centralization even when the new accounting system is in place. This degree of centralization provides for effective and efficient control of accounting data, as well as the integrity of accounting data. Some organizations with automated accounting systems have decentralized the input of source data on-line by user agencies. This may be a consideration for MCPS once the new accounting sytem has been operating smoothly for several reporting periods. Nevertheless, the integrity of data cannot be compromised.

The sub-units (sections) of the Division appear to be effectively structured. They correspond to the major responsibilities and workload of the Division. Therefore, we do not anticipate any significant organizational restructuring of the Department or Division even with a new system. However, if the personnel savings from a new system are 1 1/2 positions in the Input/Output Control section as estimated, then this section could be merged with the General Accounting section. The personnel savings of 1 1/2 positions in the Input/Output Control section would reduce the section to 2-3 personnel. It would not be efficient to have one person supervising 2-3 people. Therefore, this section could be merged with General Accounting since their functional responsibilities are similar. This merging of the

Input/Output Control section with General Accounting could result in additional personnel savings of 1 position due to the need for only one supervisor for the two merged sections.

Finally, the role of the financial systems analyst is critical to the successful implementation of the new accounting system given the day-to-day responsibility recommended previously. The role of the financial systems analyst is critical during the software package selection process, during implementation, and during the initial periods of operation by MCPS. These responsibilities should last approximately 3-4 years. At the end of this period, the role of the financial systems analysis should be reevaluated.

CATEGORIZATION OF RECOMMENDATIONS

This section categorizes all the recommendations of our management study in terms of the time to implement them as immediate, short-term and long-term. The categorization is based primarily on the level of effort to implement the changes. Immediate term changes are estimated at 60-90 days, short-term less than one year, and long-term greater than one year.

The following recommendations should be acted upon immediately based on their importance to accounting operations and the limited effort in implementation. The recommendations to be implemented immediately are:

- The current standards of reporting in the Comprehensive Annual Financial Report should be continued (III).
- Minor discrepancies in accounting should be adjusted without major reconciliation efforts (III).
- The level of control on all types of expenditure should be consistent (III).

- The Office of the Director should continue to process cash collections (IV).

- The processing of receivables should be consolidated in the Division and the management of receivables should receive increased emphasis (IV).

- The Division of Administrative Analysis and Audit of the Department of Educational Accountability should only be responsible for inventory observations (IV).

- Some duties of the Accounting Specialist should be reassigned (VI).

- Account managers should be consulted prior to transfer of funds from their accounts (VII).

- Due dates for the submission of monthly projection reports should be extended when the monthly accounting reports are late (VII).

- Policies and procedures for the effective and efficient collection of delinquent account receivables should be established (IX).

- The policy of crediting food service cash to the general fund should be reviewed (IX).

- The status of the Independent Activity Funds and their investment should be clarified (IX).

- Accounting personnel who interact with the outside trust account managers should be informed of account performance (IX).

- Additions to the furniture and equipment inventory should be transmitted in a more timely manner (IX).

- The present decentralized inventory accounting scheme should be maintained (IX).

- A reserve account for uncollectibles should be established (X).

- It is recommended that the full accrual accounting treatment of Food Services remain unchanged (X).

- Copies of all contracts should be forwarded to the Division for their records and for encumbering (X).

- A procedure should be developed to assign user account numbers to personnel on supported projects as they are closed (X).

The following recommendations should be implemented within the next 12 months. This time period is based on the estimated effort required to implement these recommendations. The short-term category of recommendations includes:

- The chart of accounts should be reduced in size (III).

- A comprehensive description of the current accounting system and the associated manual processes should be produced and maintained (III).

- An accounting manual should be produced which describes the policies and procedures of the division (III).

- The accounting principles and policies of MCPS should be reviewed formally and adopted by the Superintendent and/or the Board of Education (III).

- A formal cash management function should be established within the Division (IV).

- Evaluation of financial performance against budget should be performed by the Department of Budget Planning and Development (IV).

- The Department of Budget Planning and Development should be responsible for the budgetary control of MCPS budget expenditures (IV).

- A new section within the Division should be established to be responsible for receivables (V).

- The Department and Division should organize, codify and publish their goals, objectives, operating procedures roles and work assignments (V).

- Clerical personnel should be cross-trained between sections (VI).

- Accountants should be cross-trained (VI).

- Account managers should receive training for effective financial management of their responsibilities (VII).

- Documentation of the accounting system should be developed to support account managers in financial management (VII).

- Several actions should be taken to improve data security and minimize the opportunity for system intrusion (VIII).

- The level of data processing support to the Division should be increased (VIII).

- MCPS should establish procedures with the County to provide explicit benefits to MCPS for effective cash management (IX).

- The current accounting cycles should be continued, but a multi-year capability should be developed (X).

- The Division should adopt those recommendations in other MORE studies which would improve effectiveness and efficiency (X).

The final category of recommendations are categorized as long-term. This category is based primarily on the long lead time required to implement these changes. Implementation of these recommendations is expected to require more than one-year. The long-term recommendation are:

- The production of the state Financial Report and CAFR should be performed by an automated system (III).

- The recording of data and transactions necessary for the conversion to a modified or full accrual basis should be automated and/or reassigned (III).

- Policies and procedures should be established for the effective control of the financial performance of account managers and for the encumbering of all procurement documents (V).

- Changes in data processing support should be made to increase productivity and reduce needed clerical staff (VI).

- The Financial Information System should be modified or replaced to meet the needs of account managers (VII).

- The current Financial Information System should be replaced (VIII).

- MCPS should acquire a cost accounting sysem (VIII)

- The recording of fixed assets from work-in-progress should be automated (IX).

- Older inventory systems should be enhanced (IX).

- An automated capability should be provided for the processing of partial payments against contracts (X).

- The FIS should be modified to automatically transfer accounting data to the Department of Budget Planning and Development (X).

- The FIS should have the capability to report supported projects on both a fiscal year and project year basis (X).